

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|---|--------------|--------------------------------------|--------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name | County |
| Fiscal Year End | Opinion Date | Date Audit Report Submitted to State | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

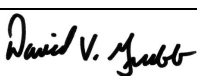
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|--------------------------|--|----------------|-----|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) | | Telephone Number | | |
| Street Address | | City | State | Zip |
| Authorizing CPA Signature  | Printed Name | | License Number | |

City of St. Clair Shores, Michigan

**Comprehensive Annual Financial Report
with Supplemental Information
Prepared by the Department of Finance
For the Fiscal Year Ended June 30, 2006**

City of St. Clair Shores, Michigan

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City of St. Clair Shores

Finance Department

27600 Jefferson Circle Drive St. Clair Shores, MI 48081-2093
Phone: (586) 447-3322 Fax: (586) 445-5245 www.scsmi.net

Mayor

Robert A. Hison

Mayor Pro-Tem

Kip C. Walby

City Manager

Kenneth R. Podolski



Council Members:

Ronald J. Frederick

Beverly A. McFadyen

Mark J. Moffitt

Erin A. Stahl

Matt Ahearn

September 25, 2006

To the Honorable Mayor, Members of the City Council,
and Citizens of the City of St. Clair Shores:

The Comprehensive Annual Financial Report (CAFR) of the City of St. Clair Shores for the year ended June 30, 2006 is hereby submitted. The basic financial statements as defined in the table of contents were audited by Plante & Moran, PLLC, certified public accountants. Their unqualified opinion follows this letter of transmittal. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the governmental activities, business-type activities, the various funds and component units of the City of St. Clair Shores. All disclosures necessary to enable the reader to gain an understanding of the City of St. Clair Shores' activities have been included. The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical, and Continuing Disclosure. The introductory section, which is unaudited, includes this letter of transmittal, an organizational chart, and a list of the City of St. Clair Shores' principal appointed officials. The financial section includes: the management's discussion and analysis; the basic financial statements, which are comprised of the entity-wide financial statements, fund financial statements, and schedules and related note disclosures, as well as the independent auditor's report on these financial statements and schedules; and the required and other supplemental information on the budgetary comparison schedules, pension plans, and combining financial statements for nonmajor funds. The statistical section, also unaudited, includes selected financial and demographic information, generally presented on a multi-year basis. Finally, the unaudited continuing disclosure section contains information required by the Securities and Exchange Commission Rule 15c2-12, requiring that issuers of municipal securities undertake in a written contract for the benefit of the holders of such securities to provide certain annual financial information to various information repositories.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of St. Clair Shores' MD&A can be found immediately following the report of the independent auditor.

The Reporting Entity and Services Provided

The City of St. Clair Shores (the “City”) has defined its financial reporting entity in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The City of St. Clair Shores includes all the funds, agencies, boards, commissions, and authorities that are controlled by or dependent on the mayor and City Council. Based upon these criteria, the Economic Development Corporation, the Tax Increment Finance Authority, and the Brownfield Redevelopment Authority have been included in this report as discretely presented component units.

The City of St. Clair Shores provides a full range of services including police and fire protection; sanitation services; construction and maintenance of highways, streets and infrastructure, planning and zoning; library services, recreational activities, and cultural events. Additionally, water and sewer services are provided under an Enterprise Fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses and payments on outstanding debt.

Local Economy and Governmental Structure

The City of St. Clair Shores is located in the southeast corner of Macomb County, north of the City of Detroit, in southeastern Michigan on Lake St. Clair. The City contains approximately 11.6 square miles with a population of 63,096 persons as reported by the U.S. Bureau of the Census for calendar year 2000. The City currently has a 7.1 percent unemployment rate as compared to a statewide rate of 6.3 percent and a national average of 4.6 percent.

Incorporated in 1951, the City operates under a Council/Manager form of government. Voters elect a mayor and a six-member Council in staggered four-year terms. The mayor and Council are the legislative body of the City, responsible for adoption and implementation of ordinances, policies, budget guidelines, and upholding the Charter. The city manager administers the day-to-day operations of the City and makes recommendations to City Council.

The City of St. Clair Shores has grown over the years to a point where less than 1 percent of its total land area is vacant. Most growth taking place in Macomb County occurs to the northwest. The I-696 and I-94 freeways running through St. Clair Shores provide a corridor of opportunity for redevelopment and enhancement of existing development.

There is no question the future years will be challenging as expenditure increases are expected to continue to exceed revenues. The current five-year economic projection shows revenues increasing 2 percent or below while expenditures will increase at 4 percent to 5 percent unless changes are made. It is management’s goal to maintain high-quality services during times of economic uncertainty. The City has adopted prudent and conservative financial policies, which will help guide us through the upcoming years. The City has a strong property tax base and management believes it can meet the challenges confronting us in the near future.

On August 3, 2004, a local millage to support police and fire services was successfully passed. This funding secures the staffing levels at 101 for the police department and 50 for the fire department. This millage expires June 30, 2007.

Long-term Financial Planning

The City has relied on its five-year financial model since 1996 to help make long-term plans. The model enables administration to project fund balance given various assumptions based on the economy and major cost factors. This model justified the downsizing of the workforce 14 percent since fiscal year 2002. Through conservative budgeting and the revenue generated from the police and fire operating millage, the model projects that we can continue to balance the budgets through fiscal year 2008, when the operating millage expires. If the police and fire operating millage is not renewed for fiscal years 2009 and beyond, additional downsizing will be necessary. In keeping with the policy of balancing future years through use of the model and conservative budgeting, the General Fund fund balance designated for subsequent years' expenditures has been increased.

Major Initiatives

The following were among the many activities and accomplishments to which both the elected officials and staff devoted their energies in fiscal year 2005-2006:

- 1) Conservative budgeting practices continued throughout the year. The carryover to subsequent years is \$9.2 million, with \$2.6 million designated for specific projects.
- 2) The police and fire operating levy became effective July 1, 2005. The levy guarantees minimum staffing at the police department of 101 and fire department of 50. Highlights from the fiscal year include:

| Police and Fire Operating Millage Fiscal year ended June 30, 2006 | | |
|--|----------------------|--------------------|
| Tax levy | \$2,709,814 | |
| | <u>Police</u> | <u>Fire</u> |
| Active employees | 101 | 50 |
| Department expenditures | \$11,217,595 | \$5,709,520 |

The millage expires with the July 1, 2007 levy for the fiscal year ending June 30, 2008.

- 3) All staff positions continue to be evaluated when they become open.
- 4) The residential street millage program continued for the tenth year in a row. To date, we have collected \$16,126,272 and expended \$15,999,266 as detailed on the maps following this letter. The balance of \$127,006 is reserved for qualifying expenditures in the following year. The millage expires with the July 1, 2009 levy for the fiscal year ending June 30, 2010.

- 5) St. Clair Shores' voters approved a tax levy of up to 2 mills to finance federal and state mandated improvements on the Jefferson Interceptor and repairs to sanitary sewers 1999 - dubbed the Lake St. Clair Clean Water Initiative Project. Construction of improvements for this massive infrastructure project continued this fiscal year. To date, all of the residential sanitary sewers have been televised and repairs and improvements are ongoing under this project. The residential sewers repaired at the beginning of this undertaking are now being cleaned and televised again to see that the repairs are holding up properly.
- 6) An active blight program aimed at maintaining property values continues to be a successful project citywide. To date, 130+ principal structures have been demolished, leaving room for new development which is a catalyst for numerous neighborhood improvements.
- 7) Police and fire operations represent about 43 percent of the City's general operating budget. Both police and fire departments continue to operate effectively with 28,000 and 6,900 incident responses, respectively.
- 8) The recreational opportunities at this City's disposal rival any community in southeast Michigan. Volunteers should be credited with much of the success of these operations; over 700 coaches participated in baseball, soccer, basketball, and skating associations. The civic ice arenas are utilized regularly by over 2,200 skating club members in addition to the over 6,200 open skating participants. A total of 16,775 volunteer hours were logged at the senior center and there were over 16,000 visits at the pool/waterslide. The St. Clair Shores Golf Course and Country Club had 54,124 rounds of golf.

Some of the major initiatives for July 1, 2006 and thereafter are as follows:

- 1) The sewer repair and construction necessary under the Clean Water Initiative continues.
- 2) The Community Development Department continues to implement the Harper Avenue Revitalization Plan through the creation and adoption of the Harper Avenue Overlay District. Working with Hamilton Anderson Associates, CDI staff created a new zone within the zoning ordinance that would be applied to all properties on Harper Avenue from the south to the north borders of the city.

The intent of the Harper Avenue Overlay Zoning District is to implement the recommendations of the Harper Avenue Revitalization Plan. The Revitalization Plan is a master redevelopment plan for the Harper Avenue corridor, which was crafted on input from business and property owners, residents, and City officials and staff. The objectives of the ordinance are to visually and functionally strengthen the public right-of-way space, create an orderly visual image, and foster a business-friendly redevelopment climate.

Another action taken by CDI staff during the year was to apply for a streetscape grant. The grant is being funded through the State of Michigan, and the City was approved to move forward with landscape plans at key points on Harper Avenue as well as the replacement of existing street lights with more modern types along Harper Avenue. The award of the grant helps to further implement the Revitalization Plan for the area. The City awarded the design of the landscaping and key intersections to Stucky Vitale Architects. Identification of the key intersections, entranceways, sculptures, and signage are all elements that are being considered or implemented in the overall plan.

- 3) We continue to monitor the water loss and look for leaks. Water loss has been reduced from a recent high of 28.6 percent at June 30, 2005 to 11 percent at June 30, 2006. Staff continues to take proactive steps to keep the water losses low.
- 4) We have eliminated 44 positions in the last five years and almost all capital spending. The slowdown in the economy and the expected increases in expenditures for insurance and homeland security will seriously affect future budgets. The annualized value of the 44 positions eliminated exceeds \$1.52 million.

Statutory state-shared revenues continue to be at risk. The most recent estimate from the State places statutory revenue sharing at \$1.3 million for the fiscal year ending June 30, 2007. In addition, the November 2006 ballot contains proposals that would further negatively affect State finances.

Budgeting and Internal Controls

In accordance with State law, the City's budget is prepared on the modified accrual basis for governmental-type funds, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenues are recorded when they are both measurable and available. Expenditures are recorded when a liability is incurred, except for interest on long-term debt and accrued vacation benefits. Governmental fund types, such as the City's General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds are reported on the modified accrual basis. The City's Enterprise Funds, Internal Service Funds, Pension, and other Employee Benefit Trust Funds are reported on the full accrual basis, under which revenues are recorded when earned and expenses are recorded when incurred.

The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the General Fund are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level for the General Fund, Special Revenue Funds, and certain Debt Service Funds. However, for internal accounting purposes, budgetary control is maintained by object class (line account) for all funds. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Purchase orders that would create an over-encumbrance are not written until additional appropriations are available. Encumbered accounts lapse at year end. However, any encumbrances outstanding at June 30, 2006 are generally reported a designated fund balance for subsequent year expenditures. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

The City relies on a sound system of internal controls over financial reporting and federal program compliance. A system of internal control has been established for the purpose of preventing or detecting errors, misappropriation of assets, and fraudulent financial reporting. The system of internal controls relies on the integrity of the people who work for the City.

Pension and Other Postemployment Benefits

The City has two Pension Trust Funds: the Employees' Retirement System created by City Charter on July 1, 1951 and the Police and Fire Retirement System created under Public Act 345 and collective bargaining. An actuarial study determines the funding required by the City to meet its future benefit obligations. In the most recent actuarial report for the period ended June 30, 2005, the total estimated actuarial accrued liabilities were \$50,931,381 for the Employees' Retirement System and \$104,248,328 for the Police and Fire Retirement System. One method of assessing the financial strength of a pension fund is to compute the percentage of liabilities that have been funded. This percentage at June 30, 2005 was 80.6 percent for the Employees' Retirement System, down from 83.6 percent at June 30, 2004, and 87.2 percent for the Police and Fire Retirement System, down from 96.2 percent as of June 30, 2004. The primary cause of the reduction in the funding ratios is a reduction in the market value of investments. The City also provides postretirement health care benefits for retirees and their dependents. As of the end of the current year, there were a total of 343 retirees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits at this time. However, GASB Statements No. 43 and 45 will soon change the reporting requirements. In 2000, the City created the Police and Fire Retiree Health Trust and began setting aside \$250,000 per year toward this unfunded liability for police and fire retirees. To date, there has not been a similar trust fund set up to pre-fund general retiree benefits. The two retiree health care plans will have to disclose on an actuarial basis their liabilities for the year ending June 30, 2008 (GASB No. 43). The City will begin accounting for these liabilities on an actuarial basis for the year ending June 30, 2009 (GASB No. 45).

Cash Management

It is the policy of the City of St. Clair Shores to invest public funds in a manner that will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City and conforming to all State statutes and local ordinances governing the investment of public funds. Cash temporarily idle during the year was invested in demand deposits, certificates of deposits, and mutual funds investing in obligations of the U.S. government.

Risk Management

St. Clair Shores is a member of the Michigan Municipal Risk Management Authority (MMRMA). The MMRMA is a self-insured association with a membership of approximately 1,170 local government units in Michigan. It provides risk management, claims administration, legal defense, and reinsurance services for its members.

The City is also self-insured for workers' compensation and medical benefits coverage. We use The Accident Fund Insurance Company of America as a third-party administrator of the workers' compensation program and purchase reinsurance through them. We utilize Blue Cross/Blue Shield as a third-party administrator of a self-funded medical benefits program.

Awards

For the eleventh year in a row, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of St. Clair Shores for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

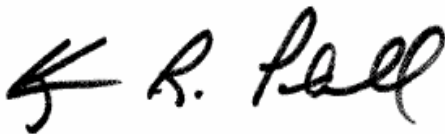
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFRs must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of St. Clair Shores has received a Certificate of Achievement for the last 11 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the department of finance and our independent auditors, Plante & Moran, PLLC, CPAs. Each of them has our sincere thanks. In closing, without the leadership and support of the City Council, preparation of this report would not have been possible.

Sincerely,



Kenneth R. Podolski
City Manager



Timothy P. Haney
Director of Finance and City Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of St. Clair Shores,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

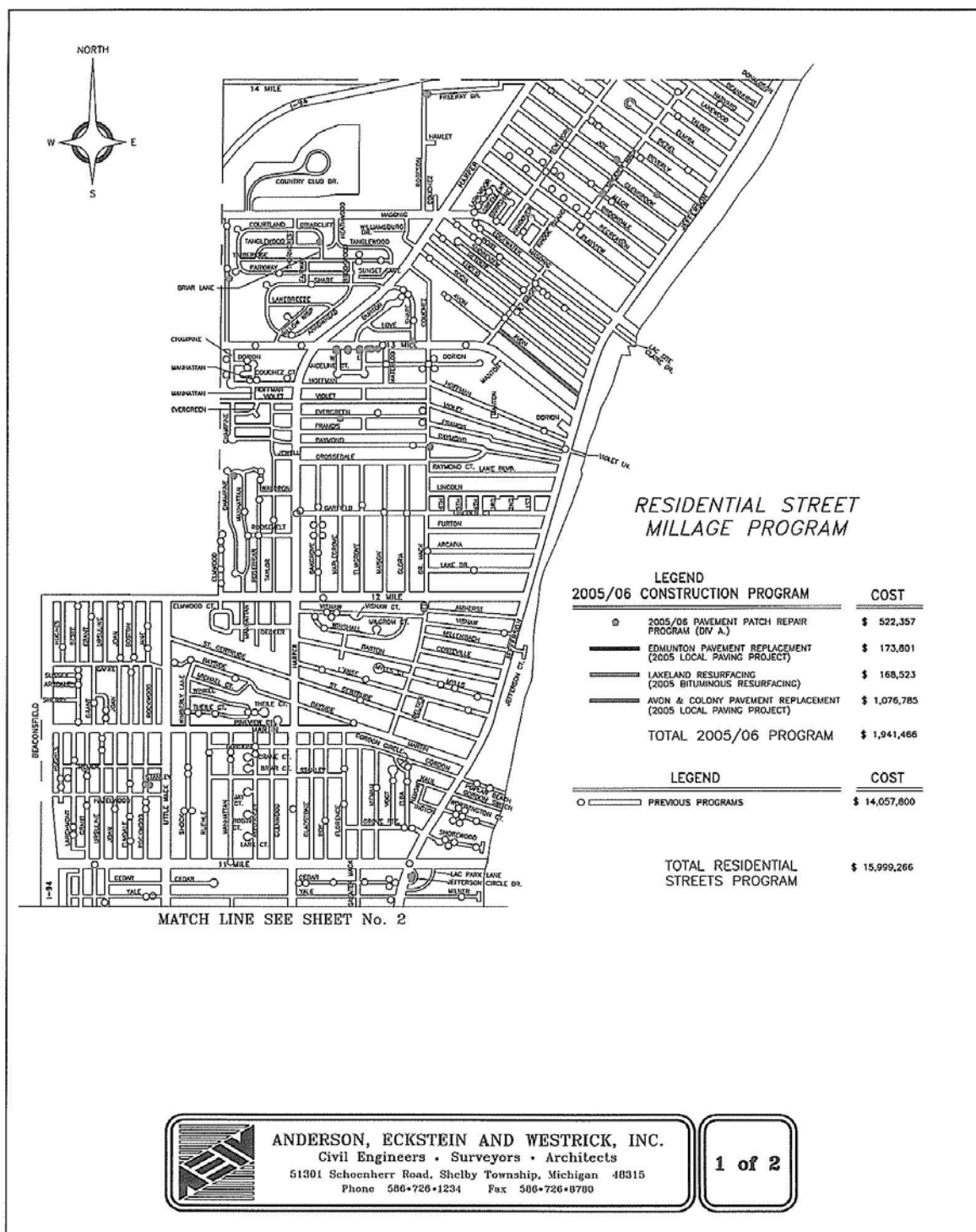



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

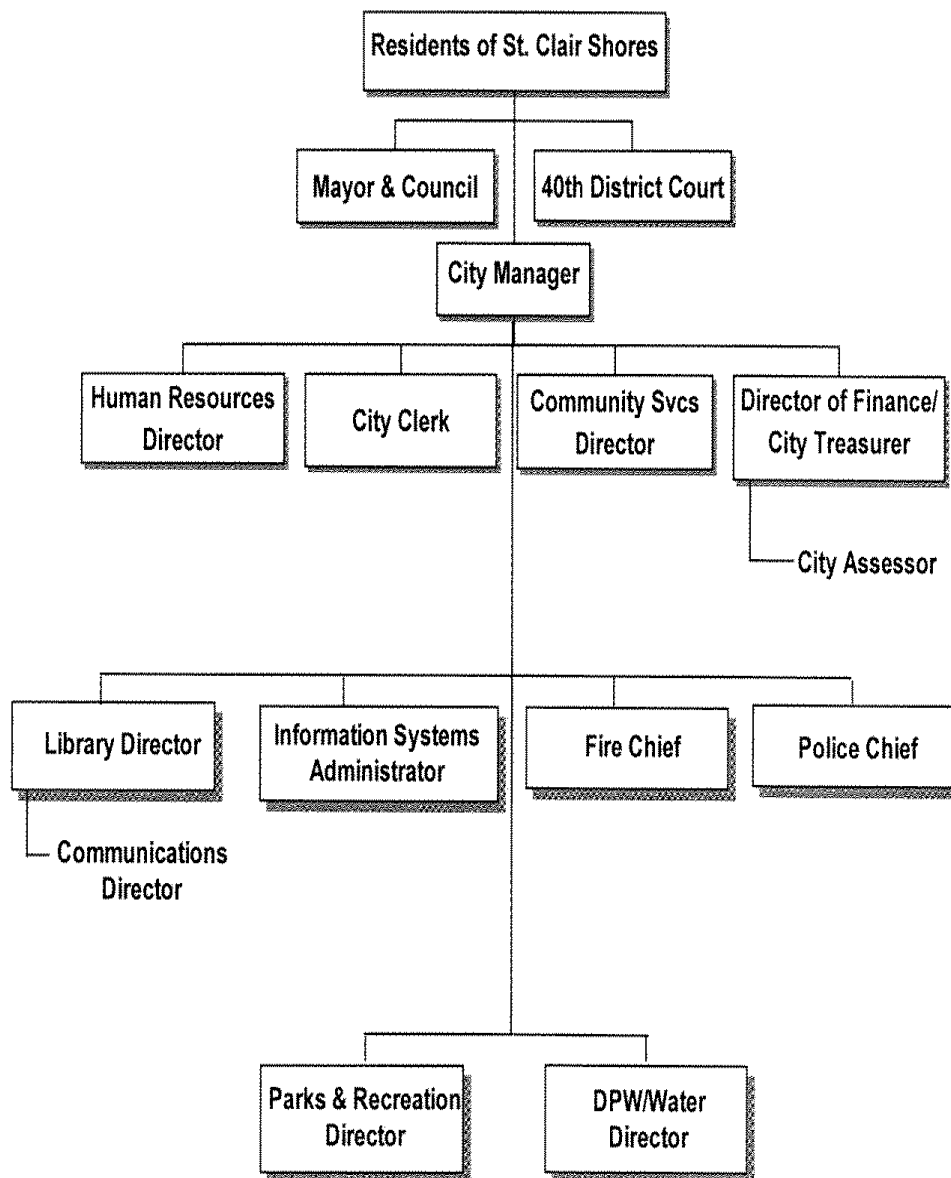




ANDERSON, ECKSTEIN AND WESTRICK, INC.
 Civil Engineers • Surveyors • Architects
 51301 Schoenherr Road, Shelby Township, Michigan 48315
 Phone 586•726•1234 Fax 586•726•8780

1 of 2

City of St. Clair Shores, Michigan
Organizational Chart



City of St. Clair Shores, Michigan

List of Principal Officials June 30, 2006

City Manager

Kenneth R. Podolski, City Manager
Michael E. Smith, Human Resource Director
Robert Ihrle, City Attorney

City Clerk

Mary A. Kotowski, City Clerk
Catherine Garnham, Deputy City Clerk

Community Development

Christopher R. Rayes, Director of Community Services
Sandra Wolny, Code Enforcement Supervisor
Elizabeth Koto, City Planner
Dennis Cairns, Chief Building Official

District Court

May Prescott, Acting Court Administrator

Department of Public Works

Curtis L. Dumas Jr., Department of Public Works/Water Director

Finance

Timothy P. Haney, Director of Finance/Treasurer
Sharon A. Schuster, Controller
Susan Kroening, Assistant Controller
Scott Vandermergel, City Assessor

Fire

Matthew M. Kovalcik, Fire Chief

Information Systems

Greg Corless, Information Systems Administrator

Library and Information Services

RoseMary Orlando, City Librarian
Sue Ann Mihalic, Assistant Librarian
Mary Jane Winkler, Communication Director

Parks and Recreation

Gregory Esler, Parks and Recreation Director
Timothy J. Dorner, Golf Course Superintendent

Police

Charles R. Burnett, Police Chief
Ronald F. Willette, Deputy Police Chief

City of St. Clair Shores, Michigan

Fund Organization Chart

| Governmental Funds | |
|--|---|
| General | Special Revenue |
| General Fund Activity | Library State Aid Library Penal Fund Major Streets Local Streets Court Building Drug Law Enforcement Community Development Block Grant (CDBG) Family Rental Program |
| Debt Service | Capital Projects |
| Debt Service Building Authority 1989 MVH Debt Retirement 1990 MVH Debt Retirement 1991 MVH Debt Retirement 1994 MVH Debt Retirement SEMSD Clean Water Initiative | SEMSD Clean Water Initiative Harper Avenue Streetscape |
| Proprietary Funds | |
| Enterprise | Internal Service |
| Recreational Revenue Utility | Motor Pool Computer Replacement |
| Fiduciary Funds | |
| Pension Trust | Agency |
| General Employees' Pension Fund Police and Fire Retirement System | General Agency Tax Collections Water Feasibility Study |
| Other Employee Benefit Trust Fund | |
| Police and Fire Retiree Health Care | |
| Component Units | |
| Economic Development Corporation Tax Increment Finance Authority (TIFA) Brownfield Redevelopment Authority | |



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19176 Hall Road
Clinton Township, MI 48038
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Fax: 586.416.4901
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of St. Clair Shores, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of St. Clair Shores, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement systems schedules of funding progress, and the budgetary comparison schedules for the major governmental funds, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and Members
of the City Council
City of St. Clair Shores, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Clair Shores, Michigan's basic financial statements. The accompanying introductory section, other supplemental information, statistical section, and continuing disclosure items, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical section, and continuing disclosure items have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2006 on our consideration of the City of St. Clair Shores, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 25, 2006

City of St. Clair Shores, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

Our discussion and analysis of the City of St. Clair Shore's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter on pages i-vii and the City's financial statements which begin on page 11.

Financial Highlights

- The City's overall net assets increased \$14,889,025 or 10.3 percent as a result of this year's operations. Net assets of our governmental activities increased \$12,093,079 or 11.1 percent; net assets of our business-type activities increased \$2,795,946 or 7.2 percent.
- During the year, the City had revenue and transfers in the governmental activities that were \$12,093,079 greater than the \$48,612,076 in expenses.
- In the City's business-type activities, revenues and transfers in were \$16,421,892 while expenses were \$13,625,946.
- The General Fund reported revenues in excess of expenditures of \$5,299,709.
- General Fund revenues exceeded the budget by \$868,990, while expenditures were \$4,814,472 less than budgeted.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

- **Government Activities** - Most of the City's basic services are included here such as the police, fire, public works and parks departments, and general administration. Property taxes, state-shared revenue, charges for services, and grants provide most of the funding.
- **Business-type Activities** - The City charges fees to customers to cover costs of providing water and sewer services.
- **Component Units** - The City includes three other entities in its report: the Economic Development Corporation, the Tax Increment Finance Authority, and the Brownfield Redevelopment Authority. Although legally separate, these "component units" are important because the City exercises control over them.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The City's combined net assets are \$159.2 million at June 30, 2006. Business-type activities make up \$38.9 million and governmental activities make up \$120.3 million. Combined revenues are \$77.1 million. Revenues from governmental-type activities make up \$60.6 million and business-type are \$16.5 million. The tables below show a comparison of the current year to last year.

City of St. Clair Shores - Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Assets | | | | | | |
| Current and other assets | \$ 44,800,785 | \$ 27,898,255 | \$ 18,621,838 | \$ 17,722,666 | \$ 63,422,623 | \$ 45,620,921 |
| Capital assets | 110,315,034 | 133,545,953 | 54,443,271 | 22,506,223 | 164,758,305 | 156,052,176 |
| Total assets | 155,115,819 | 161,444,208 | 73,065,109 | 40,228,889 | 228,180,928 | 201,673,097 |
| Liabilities | | | | | | |
| Long-term liabilities | | | | | | |
| outstanding | 26,940,189 | 42,664,440 | 31,199,739 | 1,918,506 | 58,139,928 | 44,582,946 |
| Other liabilities | 7,822,980 | 10,520,197 | 3,003,615 | 2,244,574 | 10,826,595 | 12,764,771 |
| Total liabilities | 34,763,169 | 53,184,637 | 34,203,354 | 4,163,080 | 68,966,523 | 57,347,717 |
| Net Assets | | | | | | |
| Invested in capital assets - | | | | | | |
| Net of related debt | 85,490,733 | 91,266,510 | 22,121,451 | 20,561,223 | 107,612,184 | 111,827,733 |
| Restricted | 24,596,879 | 10,928,070 | 1,399,865 | 1,247,015 | 25,996,744 | 12,175,085 |
| Unrestricted (deficit) | 10,265,038 | 6,064,991 | 15,340,439 | 14,257,571 | 25,605,477 | 20,322,562 |
| Total net assets | <u>\$ 120,352,650</u> | <u>\$ 108,259,571</u> | <u>\$ 38,861,755</u> | <u>\$ 36,065,809</u> | <u>\$ 159,214,405</u> | <u>\$ 144,325,380</u> |

Net assets of the City's governmental activities increased by 11.1 percent to \$120.3 million at June 30, 2006 compared to \$108.3 million at June 30, 2005. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from \$6.1 million at June 30, 2005 to \$10.3 million at the end of this year. This increase reflects an increase in general revenues in property taxes and investment earnings. Property taxes increased in two primary areas: the police and fire pension millage 0.6263 mills or \$1.3 million, and the new police and fire operating millage 1.5737 mills or \$2.8 million. The increase in revenue was offset by increased public safety costs of \$1.4 million and public works costs of \$1.2 million.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

City of St. Clair Shores - Changes in Net Assets

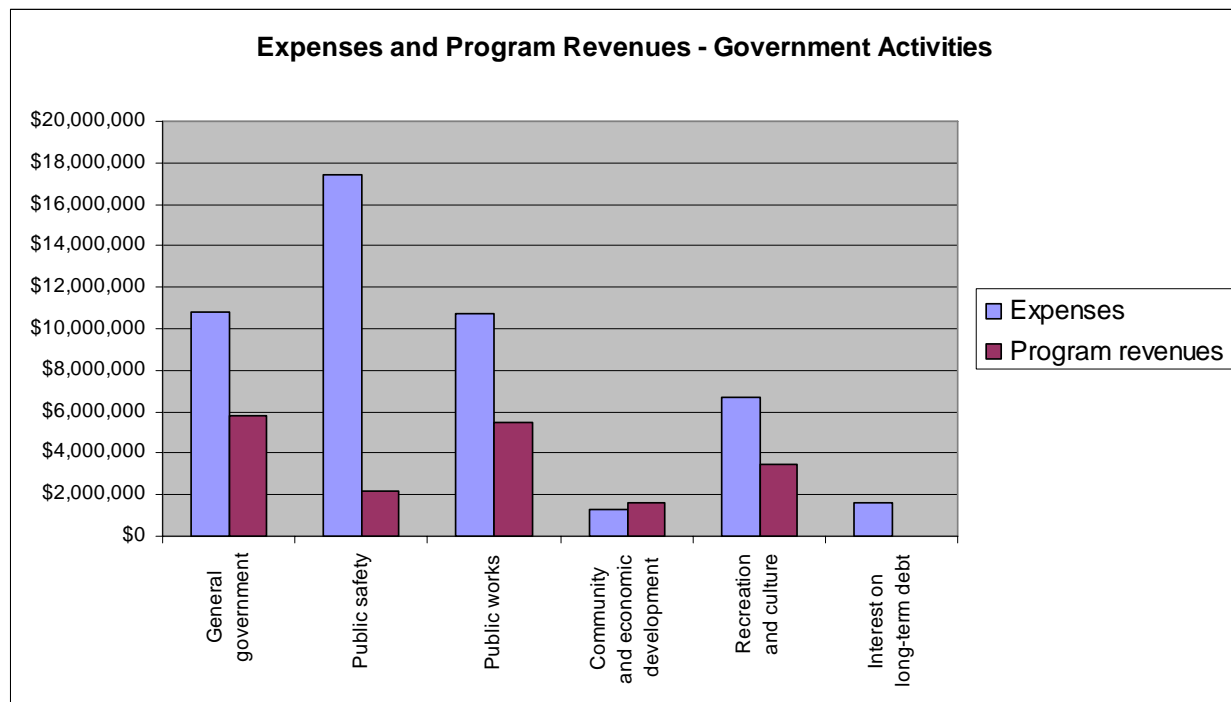
| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 8,316,587 | \$ 8,239,386 | \$ 14,374,437 | \$ 12,848,164 | \$ 22,691,024 | \$ 21,087,550 |
| Operating grants and contributions | 8,804,915 | 5,123,862 | - | 7,914 | 8,804,915 | 5,131,776 |
| Capital grants and contributions | 1,505,949 | 4,156,805 | 63,001 | 17,246 | 1,568,950 | 4,174,051 |
| General revenues: | | | | | | |
| Property taxes | 31,194,126 | 26,356,518 | 1,760,731 | 1,706,740 | 32,954,857 | 28,063,258 |
| Unrestricted state-shared revenues | 5,818,277 | 5,890,777 | - | - | 5,818,277 | 5,890,777 |
| Unrestricted investment earnings | 2,820,653 | 604,230 | 280,866 | 162,060 | 3,101,519 | 766,290 |
| Cable revenues | 727,726 | 708,795 | - | - | 727,726 | 708,795 |
| Gain on sale of capital assets | 83,826 | 189 | - | - | 83,826 | 189 |
| Other | 1,375,096 | 481,439 | - | - | 1,375,096 | 481,439 |
| Total revenue | 60,647,155 | 51,562,001 | 16,479,035 | 14,742,124 | 77,126,190 | 66,304,125 |
| Program Expenses | | | | | | |
| General government | 10,828,260 | 10,007,516 | - | - | 10,828,260 | 10,007,516 |
| Public safety | 17,445,205 | 16,210,759 | - | - | 17,445,205 | 16,210,759 |
| Public works | 10,722,110 | 9,322,623 | - | - | 10,722,110 | 9,322,623 |
| Community and economic development | 1,306,292 | 1,658,320 | - | - | 1,306,292 | 1,658,320 |
| Recreation and culture | 6,699,876 | 6,525,861 | - | - | 6,699,876 | 6,525,861 |
| Interest on long-term debt | 1,610,333 | 2,170,937 | - | - | 1,610,333 | 2,170,937 |
| Water and sewer | - | - | 13,625,089 | 14,585,737 | 13,625,089 | 14,585,737 |
| Total expenses | 48,612,076 | 45,896,016 | 13,625,089 | 14,585,737 | 62,237,165 | 60,481,753 |
| Income - Before transfers | 12,035,079 | 5,665,985 | 2,853,946 | 156,387 | 14,889,025 | 5,822,372 |
| Transfers | 58,000 | 74,420 | (58,000) | (74,420) | - | - |
| Increase in Net Assets | 12,093,079 | 5,740,405 | 2,795,946 | 81,967 | 14,889,025 | 5,822,372 |
| Net Assets - July 1, 2005 | 108,259,571 | 102,519,166 | 36,065,809 | 35,983,842 | 144,325,380 | 138,503,008 |
| Net Assets - June 30, 2006 | \$ 120,352,650 | \$ 108,259,571 | \$ 38,861,755 | \$ 36,065,809 | \$ 159,214,405 | \$ 144,325,380 |

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

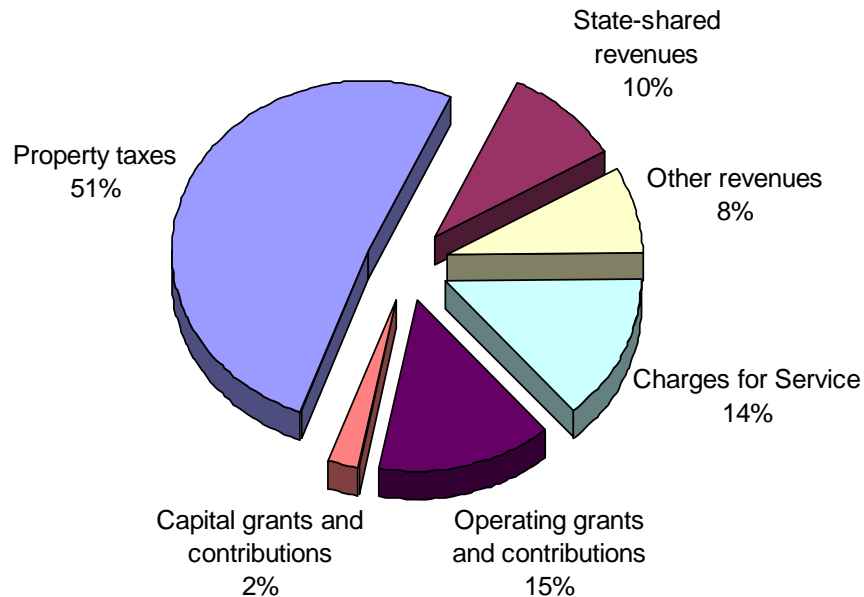
Revenues for the City's governmental activities totaled \$60.6 million in 2006. Property taxes were 51 percent or \$31.2 million. Property taxes are up 18.4 percent from last year, reflecting an increase in property tax rates for the police and fire pensions and the new police and fire operating millage. Charges for service totaling \$8.3 million or 13.7 percent support programs such as building inspections, recreation programs, etc. These charges increased, reflecting an increase in the sidewalk replacement program and general price increases as we continue to shift more costs to program users because other revenues are not available to support such programs. State-shared revenues, totaling \$5.8 million or 9.6 percent, remain stagnant from the prior year and continue to be of concern. We are uncertain as to funding levels for the future. We anticipate that the State will continue to reduce the discretionary component of state-shared revenues (currently approximately \$1.5 million) in order to balance its own budget. Investment earnings, totaling \$2.8 million or 4.7 percent of total revenue, increased from \$0.6 million last year, reflecting the more favorable interest rate environment.



City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

Revenue by Source - Governmental Activities

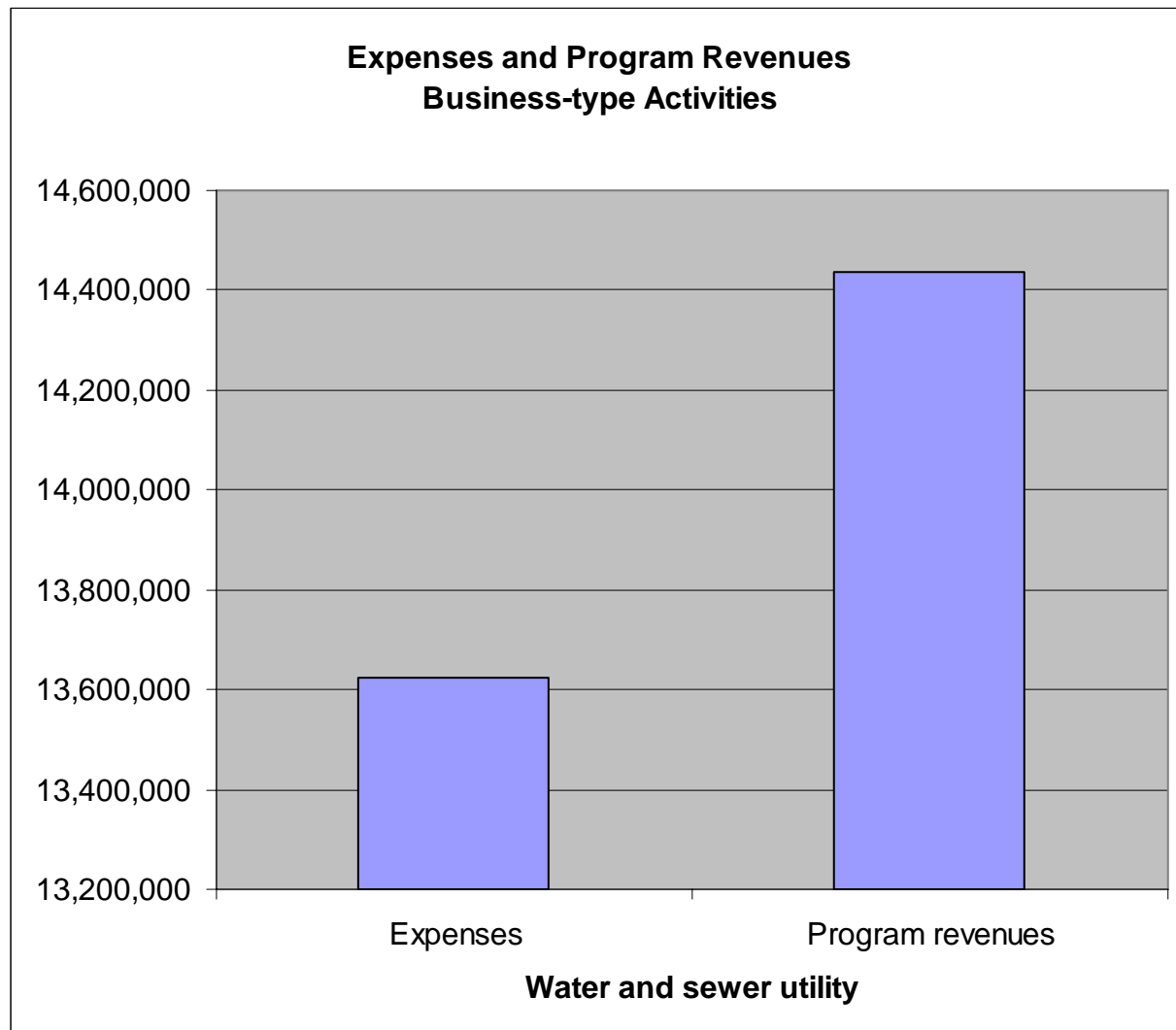


Business-type activities

The water and sewer operations are funded primarily by user fees or charges for service which make up 87.2 percent of revenues. Property taxes make up substantially all of the remaining revenues. The property tax supplement (1 mill) to user fees was renewed for five years starting July 1, 2004 in the primary election held September 9, 2003.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)



The City has one business-type activity, the water and sewer system. Revenues of the City's Utility Fund totaled \$16.5 million in 2006 and expenses were \$13.6 million. The Utility Fund experienced an increase in net assets of approximately \$2.8 million.

Water rates were decreased from \$18.95 per 1,000 cubic feet to \$17.60 per 1,000 cubic feet. This decrease reflected the decrease in the price to purchase water from the City of Detroit. Sewer rates remained the same at \$26.53 per 1,000 cubic feet. The volume of water purchased and sold was slightly above budget, resulting in an increase in working capital. Water loss was estimated to be 19 percent of purchases; the actual loss was 11 percent.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

City of St. Clair Shores - Capital Assets (in millions)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------------|-------------------------|-----------------|--------------------------|----------------|-----------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | \$ 10.1 | \$ 10.1 | \$ - | \$ - | \$ 10.1 | \$ 10.1 |
| Building and improvements | 20.1 | 19.9 | 5.1 | 5.1 | 25.2 | 25.0 |
| County drains | 2.9 | 2.9 | - | - | 2.9 | 2.9 |
| Improvements other than buildings | 16.9 | 16.7 | 1.0 | 0.5 | 17.9 | 17.2 |
| Furniture, fixtures, and equipment | 13.2 | 12.1 | 0.7 | 0.7 | 13.9 | 12.8 |
| Water and sewer distribution systems | - | - | 69.9 | 39.3 | 69.9 | 39.3 |
| Vehicles | 8.9 | 8.5 | - | - | 8.9 | 8.5 |
| Infrastructure | 78.7 | 73.3 | - | - | 78.7 | 73.3 |
| Construction in progress | 18.1 | 42.4 | 2.2 | 0.4 | 20.3 | 42.8 |
| Total | <u>\$ 168.9</u> | <u>\$ 185.9</u> | <u>\$ 78.9</u> | <u>\$ 46.0</u> | <u>\$ 247.8</u> | <u>\$ 231.9</u> |

Capital assets related to governmental activities decreased by \$17.0 million, reflecting completed capital improvements that were transferred to the Utility Fund and placed in service.

See Note 5 of the financial statements for additional information.

Long-term Debt

Shortly after June 30, 2006, debt was issued in the amount of \$3,750,000 to fund replacement of water mains.

See long-term debt note disclosures for additional information.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants. The City Council also establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

- Proprietary funds - Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provide both short- and long-term financial information.
- Fiduciary funds - The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

The fund financial statements begin on page 15 and provide detailed information on the most significant funds - not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2006 include the General Fund, the Major and Local Streets Funds, and the SEMSD Clean Water Initiative Debt Service and Capital Projects Funds.

The major components of revenues in these funds are property taxes and state sources. The major components of expenditures in these funds are public safety (police and fire) and public works. There was an excess of revenues and other financing sources over expenditures in these funds of \$2.6 million. The majority of this excess is in the General and Major Street Funds offset by a reduction in the SEMSD Clean Water Initiative Construction and Local Streets Funds that reflect investment in infrastructure.

General Fund Budgetary Highlights

Actual revenues were within 1.3 percent of the final budget. Expenditures had some changes reflecting amendment of certain budgets to pick up carryover projects from the previous year. Actual expenditures were 12.1 percent below budget, representing a carryover of funds for specific projects and subsequent year expenditures. All departments were under the final budget, allowing us to again build up carryover fund balance to help with years projected in the future.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

Current Economic Conditions

The City continues to balance its budget; however, structurally there is a funding problem for established communities in Michigan. The three major funding sources for cities are property taxes, state-shared revenues, and fees and charges. All three revenue sources are subject to limitations that over the last few years and for the foreseeable future will prevent them from increasing at the rate of inflation. Expenses on the other hand are rising faster than inflation in many areas such as health care, energy costs, etc. This has resulted in a reduction in personnel (44 in the last five years) in order to balance the budget. The city government is a service to the City residents and therefore its primary costs are personnel related. Through the use of long-term planning, the City will continue to balance its budget. On August 3, 2004, the voters of the City approved a millage increase of 1.5927 mills for three years commencing on July 1, 2005 for police and fire operations. The millage guarantees staffing at 101 personnel for the police department and 50 personnel for the fire department. It is projected that this additional millage revenue in the General Fund will allow for a balanced budget.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tim Haney, the Director of Finance/Treasurer, at the City of St. Clair Shores, 27600 Jefferson Circle Drive, St. Clair Shores, MI 48081.

City of St. Clair Shores, Michigan

Statement of Net Assets June 30, 2006

| | Primary Government | | | Component |
|--|-----------------------|----------------------|-----------------------|-----------------------|
| | Governmental | Business-type | Total | Units |
| | Activities | Activities | | |
| Assets | | | | |
| Cash and cash equivalents (Note 3) | \$ 25,909,306 | \$ 5,281,209 | \$ 31,190,515 | \$ 930,763 |
| Receivables - Net: | | | | |
| Property taxes | 93,969 | - | 93,969 | - |
| Customers | - | 4,216,787 | 4,216,787 | - |
| Special assessments | 122,178 | 46,422 | 168,600 | - |
| Cable and other | 557,137 | - | 557,137 | - |
| Due from other governmental units | 2,571,662 | 28,278 | 2,599,940 | 2,258 |
| Internal balances | 103,461 | (103,461) | - | - |
| Inventories | - | 146,880 | 146,880 | - |
| Restricted assets (Note 7) | 14,863,283 | 1,399,865 | 16,263,148 | - |
| Investments in joint ventures (Note 14): | | | | |
| Southeast Macomb Sanitary District | - | 7,605,858 | 7,605,858 | - |
| South Macomb Disposal Authority | 579,789 | - | 579,789 | - |
| Capital assets (Note 5): | | | | |
| Nondepreciable capital assets | 28,162,113 | 2,200,164 | 30,362,277 | - |
| Depreciable capital assets - Net | 82,152,921 | 52,243,107 | 134,396,028 | - |
| Total assets | 155,115,819 | 73,065,109 | 228,180,928 | 933,021 |
| Liabilities | | | | |
| Accounts payable | 1,811,428 | 1,575,099 | 3,386,527 | 75,616 |
| Accrued and other liabilities | 2,977,126 | 114,001 | 3,091,127 | 20,642 |
| Due to other governmental units | - | 35,729 | 35,729 | 712 |
| Unearned revenue (Note 9) | 3,498 | - | 3,498 | - |
| Noncurrent liabilities (Note 11): | | | | |
| Due within one year | 3,030,928 | 1,278,786 | 4,309,714 | 285,000 |
| Due in more than one year | 26,940,189 | 31,199,739 | 58,139,928 | 1,835,000 |
| Total liabilities | 34,763,169 | 34,203,354 | 68,966,523 | 2,216,970 |
| Net Assets (Deficit) | | | | |
| Invested in capital assets - Net of related debt | 85,490,733 | 22,121,451 | 107,612,184 | - |
| Restricted: | | | | |
| Streets | 786,198 | - | 786,198 | - |
| Debt service | 3,111,390 | - | 3,111,390 | - |
| Sanitation | 5,541,195 | - | 5,541,195 | - |
| County drains (Note 7) | 867,569 | - | 867,569 | - |
| Bond ordinance requirements (Note 7) | 522,331 | 1,399,865 | 1,922,196 | - |
| Lake St. Clair Clean Water Initiative (Note 7) | 13,344,335 | - | 13,344,335 | - |
| Postemployment benefits (Note 6) | 423,861 | - | 423,861 | - |
| Unrestricted | 10,265,038 | 15,340,439 | 25,605,477 | (1,283,949) |
| Total net assets (deficit) | \$ 120,352,650 | \$ 38,861,755 | \$ 159,214,405 | \$ (1,283,949) |

City of St. Clair Shores, Michigan

| | Program Revenues | | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs | | | | |
| Primary government - Governmental activities: | | | | |
| General government | \$ 10,828,260 | \$ 2,113,145 | \$ 3,698,577 | \$ - |
| Public safety | 17,445,205 | 1,901,412 | 252,726 | 34,040 |
| Public works | 10,722,110 | 516,875 | 3,515,658 | 1,471,909 |
| Community and economic development | 1,306,292 | 522,988 | 1,118,078 | - |
| Recreation and culture | 6,699,876 | 3,262,167 | 219,876 | - |
| Interest on long-term debt | 1,610,333 | - | - | - |
| Total governmental activities | 48,612,076 | 8,316,587 | 8,804,915 | 1,505,949 |
| Business-type activities - Water and sewer | 13,625,089 | 14,374,437 | - | 63,001 |
| Total primary government | \$ 62,237,165 | \$ 22,691,024 | \$ 8,804,915 | \$ 1,568,950 |
| Component units: | | | | |
| Economic Development Corporation | \$ - | \$ - | \$ - | \$ - |
| Tax Increment Finance Authority | 428,819 | - | - | - |
| Brownfield Redevelopment Authority | 1,006 | - | - | - |
| Total component units | \$ 429,825 | \$ - | \$ - | \$ - |
| General revenues: | | | | |
| Property taxes | | | | |
| Unrestricted state-shared revenues | | | | |
| Unrestricted investment earnings | | | | |
| Cable revenues | | | | |
| Miscellaneous | | | | |
| Gain on sale of capital assets | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in Net Assets | | | | |
| Net Assets (Deficit) - Beginning of year | | | | |
| Net Assets (Deficit) - End of year | | | | |

Statement of Activities Year Ended June 30, 2006

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|-----------------------|-----------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| \$ (5,016,538) | \$ - | \$ (5,016,538) | \$ - |
| (15,257,027) | - | (15,257,027) | - |
| (5,217,668) | - | (5,217,668) | - |
| 334,774 | - | 334,774 | - |
| (3,217,833) | - | (3,217,833) | - |
| (1,610,333) | - | (1,610,333) | - |
| (29,984,625) | - | (29,984,625) | - |
| - | 812,349 | 812,349 | - |
| (29,984,625) | 812,349 | (29,172,276) | - |
| - | - | - | - |
| - | - | - | (428,819) |
| - | - | - | (1,006) |
| - | - | - | (429,825) |
| 31,194,126 | 1,760,731 | 32,954,857 | 795,469 |
| 5,818,277 | - | 5,818,277 | - |
| 2,820,653 | 280,866 | 3,101,519 | 26,612 |
| 727,726 | - | 727,726 | - |
| 1,375,096 | - | 1,375,096 | 2,000 |
| 83,826 | - | 83,826 | - |
| 58,000 | (58,000) | - | - |
| 42,077,704 | 1,983,597 | 44,061,301 | 824,081 |
| 12,093,079 | 2,795,946 | 14,889,025 | 394,256 |
| 108,259,571 | 36,065,809 | 144,325,380 | (1,678,205) |
| \$ 120,352,650 | \$ 38,861,755 | \$ 159,214,405 | \$ (1,283,949) |

City of St. Clair Shores, Michigan

| | Major Special Revenue Funds | | | Major Debt Service Fund |
|---|-----------------------------|--------------------|--------------------|------------------------------|
| | General Fund | Major Streets Fund | Local Streets Fund | SEMSD Clean Water Initiative |
| Assets | | | | |
| Cash and investments (Note 3) | \$ 18,699,496 | \$ 47,161 | \$ 108,840 | \$ 3,085,230 |
| Receivables: | | | | |
| Taxes | 93,969 | - | - | - |
| Special assessments | 122,178 | - | - | - |
| Cable and other | 437,938 | - | 103,055 | 15,030 |
| Due from other governmental units | 1,758,146 | 417,320 | 163,185 | - |
| Restricted assets | - | - | - | - |
| Due from other funds (Note 4) | 206,300 | 198,313 | 200,861 | - |
| | <u>206,300</u> | <u>198,313</u> | <u>200,861</u> | <u>-</u> |
| Total assets | \$ 21,318,027 | \$ 662,794 | \$ 575,941 | \$ 3,100,260 |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 1,117,633 | \$ 60,296 | \$ 183,943 | \$ - |
| Accrued and other liabilities | 1,913,668 | - | 21,418 | - |
| Due to other funds (Note 4) | 619,649 | 123,311 | 8,622 | 149,208 |
| Deferred revenue (Note 9) | 21,257 | - | 55,804 | - |
| | <u>3,672,207</u> | <u>183,607</u> | <u>269,787</u> | <u>149,208</u> |
| Total liabilities | 3,672,207 | 183,607 | 269,787 | 149,208 |
| Fund Balances | | | | |
| Reserved for: | | | | |
| Postemployment benefits (Note 6) | 423,861 | - | - | - |
| Sanitation Trust (Note 6) | 5,541,195 | - | - | - |
| Street Improvement Trust (Note 6) | 857 | - | - | - |
| Streets repair and construction | - | - | 127,006 | - |
| Lake St. Clair Clean Water Initiative | - | - | - | - |
| Unreserved: | | | | |
| Designated for subsequent years' expenditures | 9,179,405 | - | - | - |
| Undesignated | 2,500,502 | 479,187 | 179,148 | 2,951,052 |
| Unreserved, reported in: | | | | |
| Special Revenue Funds | - | - | - | - |
| Debt Service Funds | - | - | - | - |
| Capital Projects Funds | - | - | - | - |
| | <u>17,645,820</u> | <u>479,187</u> | <u>306,154</u> | <u>2,951,052</u> |
| Total fund balances | 17,645,820 | 479,187 | 306,154 | 2,951,052 |
| Total liabilities and fund balances | \$ 21,318,027 | \$ 662,794 | \$ 575,941 | \$ 3,100,260 |

**Governmental Funds
Balance Sheet
June 30, 2006**

| | | |
|---|---|--------------------------------|
| Major Capital Projects Fund | | |
| SEMSD Clean Water Initiative Construction | Other Nonmajor Governmental Funds | Total Governmental Funds |
| \$ - | \$ 1,684,203 | \$ 23,624,930 |
| - | - | 93,969 |
| - | - | 122,178 |
| - | - | 556,023 |
| - | 233,011 | 2,571,662 |
| 13,473,383 | - | 13,473,383 |
| 199,858 | 310,485 | 1,115,817 |
| \$ 13,673,241 | \$ 2,227,699 | \$ 41,557,962 |
| | | |
| \$ 328,906 | \$ 44,041 | \$ 1,734,819 |
| - | 22,620 | 1,957,706 |
| - | 140,250 | 1,041,040 |
| - | - | 77,061 |
| 328,906 | 206,911 | 4,810,626 |
| - | - | 423,861 |
| - | - | 5,541,195 |
| - | - | 857 |
| - | - | 127,006 |
| 13,344,335 | - | 13,344,335 |
| - | - | 9,179,405 |
| - | - | 6,109,889 |
| - | 1,550,690 | 1,550,690 |
| - | 160,338 | 160,338 |
| - | 309,760 | 309,760 |
| 13,344,335 | 2,020,788 | 36,747,336 |
| \$ 13,673,241 | \$ 2,227,699 | \$ 41,557,962 |

City of St. Clair Shores, Michigan

Governmental Funds Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities June 30, 2006

| | |
|--|------------------------------|
| Total Fund Balances of Governmental Funds | \$ 36,747,336 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 102,281,932 |
| Certain receivables are expected to be collected over several years in the General Fund and are not available to pay for current year expenditures | 73,563 |
| Other payroll liabilities are not due and payable in the current period and are not reported in the funds | (301,892) |
| Accrued interest payable on long-term debt is not recorded in the funds | (467,426) |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | (26,946,889) |
| Investment in joint venture is not included as an asset in the governmental funds | 579,789 |
| Cash held by Macomb County for drain projects is not included as an asset in the governmental funds | 867,569 |
| The Recreational Revenue Enterprise Fund is included as part of governmental activities | 2,176,004 |
| The Internal Service Funds (Motorpool and Computer Replacement) are included as part of governmental activities | 5,342,664 |
| Net Assets of Governmental Activities | <u>\$ 120,352,650</u> |

City of St. Clair Shores, Michigan

| | Major Special Revenue Funds | | | Major Debt Service Fund |
|--|-----------------------------|--------------------|--------------------|------------------------------|
| | General Fund | Major Streets Fund | Local Streets Fund | SEMSD Clean Water Initiative |
| Revenue | | | | |
| Property taxes | \$ 25,733,620 | \$ - | \$ 1,779,822 | \$ 3,674,519 |
| Intergovernmental: | | | | |
| Federal sources | 384,195 | - | - | - |
| State sources | 6,291,763 | 2,527,380 | 988,278 | - |
| Licenses and permits | 1,429,410 | - | - | - |
| Charges for services | 3,420,521 | - | 160,753 | - |
| Investment income | 1,064,622 | 24,015 | 18,872 | 138,388 |
| Court fines and forfeitures | 2,014,115 | - | - | - |
| Other income | 1,496,980 | 71,620 | 68,385 | - |
| Total revenue | 41,835,226 | 2,623,015 | 3,016,110 | 3,812,907 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 9,928,911 | 255,030 | 595,178 | - |
| Public safety | 17,177,115 | - | - | - |
| Public works | 3,045,606 | 1,125,929 | 4,235,380 | - |
| Community and economic development | 531,145 | - | - | - |
| Recreation and culture | 4,588,316 | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | 1,651,445 |
| Interest and other charges | 1,405 | - | - | 1,926,730 |
| Total expenditures | 35,272,498 | 1,380,959 | 4,830,558 | 3,578,175 |
| Excess of Revenue Over (Under) Expenditures | 6,562,728 | 1,242,056 | (1,814,448) | 234,732 |
| Other Financing Sources (Uses) | | | | |
| Issuance of debt | - | - | - | - |
| Transfers in (Note 4) | 133,000 | 66,880 | 1,831,396 | - |
| Transfers out (Note 4) | (1,396,019) | (1,673,848) | - | (513,796) |
| Total other financing sources (uses) | (1,263,019) | (1,606,968) | 1,831,396 | (513,796) |
| Net Change in Fund Balances | 5,299,709 | (364,912) | 16,948 | (279,064) |
| Fund Balances - Beginning of year | 12,346,111 | 844,099 | 289,206 | 3,230,116 |
| Fund Balances - End of year | <u>\$ 17,645,820</u> | <u>\$ 479,187</u> | <u>\$ 306,154</u> | <u>\$ 2,951,052</u> |

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2006

| | | |
|---|--|--------------------------------|
| Major Capital Projects Fund | | |
| SEMSD Clean Water Initiative Construction | Other Nonmajor Governmental Funds | Total Governmental Funds |
| \$ - | \$ 422,794 | \$ 31,610,755 |
| 3,299,666 | 1,118,078 | 4,801,939 |
| - | 45,576 | 9,852,997 |
| - | - | 1,429,410 |
| - | - | 3,581,274 |
| 1,452,501 | 60,084 | 2,758,482 |
| - | - | 2,014,115 |
| - | 575,061 | 2,212,046 |
| 4,752,167 | 2,221,593 | 58,261,018 |
| - | 34,587 | 10,813,706 |
| - | 233,447 | 17,410,562 |
| 7,944,848 | 415,862 | 16,767,625 |
| - | 764,547 | 1,295,692 |
| - | 22,788 | 4,611,104 |
| - | 911,933 | 2,563,378 |
| - | 203,534 | 2,131,669 |
| 7,944,848 | 2,586,698 | 55,593,736 |
| (3,192,681) | (365,105) | 2,667,282 |
| 16,023,220 | - | 16,023,220 |
| 513,796 | 1,416,788 | 3,961,860 |
| - | (514,359) | (4,098,022) |
| 16,537,016 | 902,429 | 15,887,058 |
| 13,344,335 | 537,324 | 18,554,340 |
| - | 1,483,464 | 18,192,996 |
| \$ 13,344,335 | \$ 2,020,788 | \$ 36,747,336 |

City of St. Clair Shores, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

| | |
|--|-----------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 18,554,340 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation | 13,866,180 |
| Depreciation is recorded as an expense in the statement of activities but not in the governmental funds | (6,226,669) |
| Drain activities performed by the County on behalf of the City are recorded in the statement of activities but not in the governmental funds | (74,673) |
| Certain revenue reported in the statement of activities will not provide current financial resources in the governmental funds until future years | (358,491) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 2,752,083 |
| Interest expense is recorded when incurred in the statement of activities | 48,330 |
| Bond proceeds are not reported as financing sources on the statement of activities | (16,023,220) |
| Decrease in investment in joint venture is not included in the governmental funds | (162,686) |
| Decrease in accumulated employee sick and vacation pay, and other payroll liabilities as well as estimated general liability claims, are recorded when incurred in the statement of activities | (173,865) |
| The Recreational Revenue Fund is included as governmental activities in the statement of activities | 40,984 |
| The Internal Service Funds (Motorpool and Computer Replacement) are also included as governmental activities in the statement of activities | (85,410) |
| In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold | (63,824) |
| Change in Net Assets of Governmental Activities | <u>\$ 12,093,079</u> |

City of St. Clair Shores, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

| | Enterprise Funds | | Governmental Activities | |
|--|----------------------|----------------------|-------------------------|------------------------|
| | Utility | Recreational Revenue | Total Enterprise Funds | Internal Service Funds |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 5,281,209 | \$ 285,084 | \$ 5,566,293 | \$ 1,999,292 |
| Receivables: | | | | |
| Customers | 4,216,787 | - | 4,216,787 | - |
| Other | 46,422 | - | 46,422 | 1,114 |
| Due from other governmental units | 28,278 | - | 28,278 | - |
| Due from other funds (Note 4) | - | 20,000 | 20,000 | 14,238 |
| Inventories | 146,880 | - | 146,880 | - |
| Restricted assets (Note 7) | 1,399,865 | 522,331 | 1,922,196 | - |
| Total current assets | 11,119,441 | 827,415 | 11,946,856 | 2,014,644 |
| Noncurrent assets: | | | | |
| Investment in Southeast Macomb Sanitary District (Note 14) | 7,605,858 | - | 7,605,858 | - |
| Capital assets - Net (Note 5): | | | | |
| Nondepreciable assets | 2,200,164 | - | 2,200,164 | 21,485 |
| Depreciable capital assets - Net | 52,243,107 | 4,517,750 | 56,760,857 | 3,493,866 |
| Total noncurrent assets | 62,049,129 | 4,517,750 | 66,566,879 | 3,515,351 |
| Total assets | 73,168,570 | 5,345,165 | 78,513,735 | 5,529,995 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 1,575,099 | 35,091 | 1,610,190 | 41,520 |
| Accrued and other liabilities | 114,001 | 129,353 | 243,354 | 120,746 |
| Due to other funds | 103,461 | 5,554 | 109,015 | - |
| Due to other governmental units | 35,729 | - | 35,729 | - |
| Current portion of long-term debt (Note 11) | 1,278,786 | 293,207 | 1,571,993 | 5,924 |
| Total current liabilities | 3,107,076 | 463,205 | 3,570,281 | 168,190 |
| Noncurrent liabilities - Long-term debt - Net of current portion (Note 11) | 31,199,739 | 2,705,956 | 33,905,695 | 19,141 |
| Total liabilities | 34,306,815 | 3,169,161 | 37,475,976 | 187,331 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 22,121,451 | 1,651,132 | 23,772,583 | 3,515,351 |
| Restricted for bond ordinance requirements (Note 7) | 1,399,865 | 522,331 | 1,922,196 | - |
| Unrestricted (deficit) | 15,340,439 | 2,541 | 15,342,980 | 1,827,313 |
| Total net assets | <u>\$ 38,861,755</u> | <u>\$ 2,176,004</u> | 41,037,759 | <u>\$ 5,342,664</u> |

Amounts reported for business-type activities in the statement of net assets are different because the Recreational Revenue Fund is included as part of governmental activities

(2,176,004)

Net Assets of Business-type Activities

\$ 38,861,755

City of St. Clair Shores, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

| | Enterprise Funds | | | Governmental Activities |
|--|----------------------|---------------------------------|---------------------------|----------------------------|
| | Utility Fund | Recreational Revenue Fund | Total Enterprise Funds | Internal Service Funds |
| Operating Revenue | | | | |
| Customer fees | \$ 14,110,958 | \$ 1,824,452 | \$ 15,935,410 | \$ - |
| Charges for services | - | - | - | 1,518,381 |
| Tap fees | 102,327 | - | 102,327 | - |
| Other | 161,152 | 1,885 | 163,037 | 233,748 |
| Total operating revenue | 14,374,437 | 1,826,337 | 16,200,774 | 1,752,129 |
| Operating Expenses | | | | |
| Water purchases | 2,155,948 | - | 2,155,948 | - |
| Sewage disposal charges | 5,397,582 | - | 5,397,582 | - |
| Salaries and fringe benefits | 1,856,479 | 941,551 | 2,798,030 | 239,799 |
| Administrative charge | 761,665 | - | 761,665 | 512,437 |
| Repairs and maintenance | 1,576,016 | 146,770 | 1,722,786 | - |
| Depreciation and amortization | 1,014,816 | 424,476 | 1,439,292 | 720,393 |
| Supplies | 58,137 | 176,478 | 234,615 | 339,429 |
| Other | 738,955 | 209,856 | 948,811 | 97,257 |
| Total operating expenses | 13,559,598 | 1,899,131 | 15,458,729 | 1,909,315 |
| Operating Income (Loss) | 814,839 | (72,794) | 742,045 | (157,186) |
| Nonoperating Revenue (Expenses) | | | | |
| Property taxes | 1,760,731 | - | 1,760,731 | - |
| Interest income | 280,866 | 27,319 | 308,185 | 61,491 |
| Interest expense | (65,491) | (120,703) | (186,194) | - |
| Gain on disposal of capital assets | - | 13,000 | 13,000 | 10,285 |
| Total nonoperating revenue (expenses) | 1,976,106 | (80,384) | 1,895,722 | 71,776 |
| Income (Loss) - Before contributions and transfers | 2,790,945 | (153,178) | 2,637,767 | (85,410) |
| Capital Contributed from Grants | 63,001 | - | 63,001 | - |
| Transfers In (Note 4) | - | 194,162 | 194,162 | - |
| Transfers Out (Note 4) | (58,000) | - | (58,000) | - |
| Net Change in Net Assets | 2,795,946 | 40,984 | 2,836,930 | (85,410) |
| Net Assets - Beginning of year | 36,065,809 | 2,135,020 | 38,200,829 | 5,428,074 |
| Net Assets - End of year | <u>\$ 38,861,755</u> | <u>\$ 2,176,004</u> | <u>\$ 41,037,759</u> | <u>\$ 5,342,664</u> |
| Net Change in Net Assets - Total Enterprise Funds | | | \$ 2,836,930 | |
| Amounts reported for business-type activities in the statement of activities are different because the Recreational Revenue Fund is included as governmental activities in the statement of activities | | | (40,984) | |
| Change in Net Assets of Business-type Activities | | | <u>\$ 2,795,946</u> | |

City of St. Clair Shores, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

| | Enterprise Funds | | | Governmental Activities |
|---|----------------------|---------------------------------|------------------------------|------------------------------|
| | Utility Fund | Recreational Revenue Fund | Total Enterprise Funds | Internal Service Funds |
| Cash Flows from Operating Activities | | | | |
| Receipts from customers | \$ 13,931,928 | \$ 1,826,337 | \$ 15,758,265 | \$ 1,752,130 |
| Payments to suppliers | (11,630,481) | (532,617) | (12,163,098) | (946,955) |
| Payments to employees | (1,888,793) | (916,463) | (2,805,256) | (228,019) |
| Internal activity - Payments to other funds | (137,398) | - | (137,398) | (20,066) |
| Other receipts (payments) | (18,854) | (29,097) | (47,951) | 95,755 |
| Net cash provided by operating activities | 256,402 | 348,160 | 604,562 | 652,845 |
| Cash Flows from Noncapital Financing Activities | | | | |
| Collection of property taxes | 1,760,731 | - | 1,760,731 | - |
| Transfer (to) from other funds | (58,000) | 194,162 | 136,162 | - |
| Net cash provided by noncapital financing activities | 1,702,731 | 194,162 | 1,896,893 | - |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Principal and interest paid on long-term debt | (195,491) | (390,703) | (586,194) | - |
| State grant | 63,001 | - | 63,001 | - |
| Purchase of capital assets | (2,445,043) | (113,500) | (2,558,543) | (661,968) |
| Proceeds from sale of capital assets | - | 30,000 | 30,000 | 22,542 |
| Net cash used in capital and related financing activities | (2,577,533) | (474,203) | (3,051,736) | (639,426) |
| Cash Flows from Investing Activities - Interest received on investments | 280,866 | 27,319 | 308,185 | 61,491 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (337,534) | 95,438 | (242,096) | 74,910 |
| Cash and Cash Equivalents - Beginning of year | 7,018,608 | 731,977 | 7,750,585 | 1,924,382 |
| Cash and Cash Equivalents - End of year | <u>\$ 6,681,074</u> | <u>\$ 827,415</u> | <u>\$ 7,508,489</u> | <u>\$ 1,999,292</u> |
| Balance Sheet Classification of Cash and Cash Equivalents | | | | |
| Cash and cash equivalents | \$ 5,281,209 | \$ 285,084 | \$ 5,566,293 | \$ 1,999,292 |
| Restricted assets (Notes 3 and 7) | 1,399,865 | 522,331 | 1,922,196 | - |
| Total cash and cash equivalents | <u>\$ 6,681,074</u> | <u>\$ 807,415</u> | <u>\$ 7,488,489</u> | <u>\$ 1,999,292</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | | |
| Operating income (loss) | \$ 814,839 | \$ (72,794) | \$ 742,045 | (157,186) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation and amortization | 1,014,816 | 424,476 | 1,439,292 | 720,393 |
| Change in investment in Southeast Macomb Sanitary District | (675,131) | - | (675,131) | - |
| Changes in assets and liabilities: | | | | |
| Receivables | (442,503) | - | (442,503) | 3,452 |
| Inventories | 22,692 | - | 22,692 | - |
| Due from other funds | - | - | - | 87,463 |
| Due from other governmental funds | (4,366) | - | (4,366) | (936) |
| Accounts payable | (289,745) | 487 | (289,258) | 2,170 |
| Accrued and other liabilities | (26,339) | 20,220 | (6,119) | 14,367 |
| Due to other funds | (137,398) | (169) | (137,567) | (6,764) |
| Due to other governmental funds | (37,427) | (7,960) | (45,387) | (7,527) |
| Compensated absences | (5,975) | 4,868 | (1,107) | (2,587) |
| Workers' compensation | 22,939 | (20,968) | 1,971 | - |
| Net cash provided by operating activities | <u>\$ 256,402</u> | <u>\$ 348,160</u> | <u>\$ 604,562</u> | <u>\$ 652,845</u> |
| Significant Noncash Investing and Financing Transactions - | | | | |
| Contribution of capital assets and related debt from other governmental funds | <u>\$ 30,501,908</u> | <u>\$ -</u> | <u>\$ 30,501,908</u> | <u>\$ -</u> |

City of St. Clair Shores, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

| | Pension and Other Employee Benefit Trust Funds | Agency Funds |
|--|--|--------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,168,795 | \$ 257,207 |
| Investments: | | |
| Corporate bonds and notes | 19,403,966 | - |
| U.S. government securities | 19,493,553 | - |
| Common and preferred stock | 71,921,704 | - |
| Mutual funds | 4,135,964 | - |
| Investments held by broker-dealer and banks under securities loans: | | |
| U.S. government securities | 6,268,099 | - |
| Corporate bonds and notes | 1,409,380 | - |
| Common and preferred stock | 18,967,918 | - |
| Securities lending short-term collateral bank investment pool | 27,350,906 | - |
| Accrued interest receivable | 515,216 | - |
| | | |
| Total assets | 170,635,501 | <u><u>\$ 257,207</u></u> |
| Liabilities | | |
| Accrued and other liabilities | - | \$ 153,547 |
| Due to other governmental units | - | 103,660 |
| Amounts due to broker under securities lending agreement | 27,350,906 | - |
| | | |
| Total liabilities | 27,350,906 | <u><u>\$ 257,207</u></u> |
| Net Assets - Held in trust for pension and other employee benefits | <u><u>\$ 143,284,595</u></u> | |

City of St. Clair Shores, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2006

Additions

| | |
|---|------------------|
| Investment income: | |
| Interest and dividends | \$ 4,731,421 |
| Net increase in fair value of investments | 7,002,571 |
| Less investment expenses | <u>(804,522)</u> |
| Net investment income | 10,929,470 |
| Securities lending income: | |
| Interest lending income | 893,724 |
| Less borrower rebates and bank fees | <u>(845,112)</u> |
| Net securities lending income | 48,612 |
| Contributions: | |
| Employer | 4,381,548 |
| Employee | <u>506,899</u> |
| Total contributions | <u>4,888,447</u> |
| Total additions | 15,866,529 |

Deductions

| | |
|--------------------------|-------------------|
| Benefit payments | 10,142,776 |
| Refunds of contributions | 4,911 |
| Administrative expenses | <u>50,116</u> |
| Total deductions | <u>10,197,803</u> |

Net Increase 5,668,726

Net Assets Held in Trust for Pension and Other Employee Benefits

| | |
|-------------------|------------------------------|
| Beginning of year | <u>137,615,869</u> |
| End of year | <u><u>\$ 143,284,595</u></u> |

City of St. Clair Shores, Michigan

Component Units Statement of Net Assets June 30, 2006

| | Economic Development Corporation | Tax Increment Finance Authority | Brownfield Redevelopment Authority | Total |
|--|--|---------------------------------------|--|------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ - | \$ 922,973 | \$ 7,790 | \$ 930,763 |
| Receivables - Due from other governmental units | <u>1,546</u> | <u>712</u> | <u>-</u> | <u>2,258</u> |
| Total assets | 1,546 | 923,685 | 7,790 | 933,021 |
| Liabilities | | | | |
| Accounts payable | - | 75,616 | - | 75,616 |
| Accrued and other liabilities | - | 20,642 | 712 | 21,354 |
| Noncurrent liabilities: | | | | |
| Due within one year | - | 285,000 | - | 285,000 |
| Due in more than one year | <u>-</u> | <u>1,835,000</u> | <u>-</u> | <u>1,835,000</u> |
| Total liabilities | - | 2,216,258 | 712 | 2,216,970 |
| Net Assets (Deficit) - Unrestricted | <u>\$ 1,546</u> | <u>\$ (1,292,573)</u> | <u>\$ 7,078</u> | <u>\$ (1,283,949)</u> |

City of St. Clair Shores, Michigan

| | | Program Revenues | |
|--|--------------------------|--------------------|--------------------------|
| | | Charges for | Operating |
| | Expenses | Services | Grants/ Contributions |
| Economic Development Corporation - Public works | \$ - | \$ - | \$ - |
| Tax Increment Finance Authority - Public works and interest on long-term debt | 428,819 | - | - |
| Brownfield Redevelopment Authority - Public works | <u>1,006</u> | <u>-</u> | <u>-</u> |
| Total governmental activities | <u><u>\$ 429,825</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| General revenues: | | | |
| Taxes | | | |
| Interest and other investment earnings | | | |
| Miscellaneous | | | |
| Total general revenues | | | |
| Change in Net Assets | | | |
| Net Assets (Deficit) - Beginning of year | | | |
| Net Assets (Deficit) - End of year | | | |

**Component Units
Statement of Activities
Year Ended June 30, 2006**

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|---------------------------------------|--|-----------------------|
| Economic Development Corporation | Tax Increment Finance Authority | Brownfield Redevelopment Authority | Total |
| \$ - | \$ - | \$ - | \$ - |
| - | (428,819) | - | (428,819) |
| - | - | (1,006) | (1,006) |
| - | (428,819) | (1,006) | (429,825) |
| - | 795,469 | - | 795,469 |
| - | 26,593 | 19 | 26,612 |
| - | - | 2,000 | 2,000 |
| - | 822,062 | 2,019 | 824,081 |
| - | 393,243 | 1,013 | 394,256 |
| 1,546 | (1,685,816) | 6,065 | (1,678,205) |
| <u>\$ 1,546</u> | <u>\$ (1,292,573)</u> | <u>\$ 7,078</u> | <u>\$ (1,283,949)</u> |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of St. Clair Shores, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of St. Clair Shores, Michigan:

Reporting Entity

The City of St. Clair Shores, Michigan is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. Component unit financial statements have also been presented to display the financial position and results of operations for each of the discretely presented component units.

Blended Component Units - The St. Clair Shores Building Authority (the "Authority") is governed by a board that is appointed by the City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The operations of the Authority are reported as a nonmajor Debt Service Fund.

Discretely Presented Component Units

The Economic Development Corporation (the "EDC") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, consisting of nine individuals, is appointed by the City Council and, accordingly, the City has the ability to impose its will. Complete financial statements for the EDC can be obtained from the administrative office at 27600 Jefferson Circle Drive, St. Clair Shores, MI 48081.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

The Tax Increment Finance Authority (the "TIFA") was created to encourage economic activity within the TIFA district boundaries. The TIFA collects captured property taxes in accordance with State law and budgets expenditures for improvements within the TIFA district boundaries. The TIFA's governing body, consisting of 12 individuals, is appointed by the City Council and, accordingly, the City has the ability to impose its will. Complete financial statements for the TIFA can be obtained from the administrative office at 27600 Jefferson Circle Drive, St. Clair Shores, MI 48081.

The Brownfield Redevelopment Authority (the "BRA") was created to facilitate the implementation of plans for the identification, treatment, and revitalization of environmentally distressed areas within the City designated as Brownfield Redevelopment Zones. The BRA's Board, consisting of 12 members, is appointed by the City Council and, accordingly, the City has the ability to impose its will. Complete financial statements for the BRA can be obtained from the administrative office at 27600 Jefferson Circle Drive, St. Clair Shores, MI 48081.

The City has excluded the St. Clair Shores Housing Commission from this report. Even though the City appoints the Housing Commission's directors, it does not have the ability to impose its will.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government) and its discretely presented component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the City is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided primarily through state-shared gas and weight taxes.

Local Streets Fund - The Local Streets Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is provided primarily through state-shared gas and weight taxes and a local property tax levy.

The SEMSD Clean Water Initiative Debt Service Fund - The SEMSD Clean Water Initiative Debt Service Fund accounts for the City's share of debt service expenditures for bonds issued in connection with the Lake St. Clair Clean Water Initiative. Funding is provided primarily by a local property tax levy.

The SEMSD Clean Water Initiative Capital Projects Fund - The SEMSD Clean Water Initiative Capital Projects Fund accounts for the City's share of the Lake St. Clair Clean Water Initiative construction activities administered by the Macomb County Public Works Commissioner. Funding is provided primarily through bond issuances.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major Enterprise Funds:

The Utility Fund - The Utility Fund accounts for the activities of the water distribution system and the sewage and storm water collection systems. Funding is provided primarily through user charges and a local property tax levy.

The Recreational Revenue Fund - The Recreational Revenue Fund accounts for the activity of certain recreation activities for which revenue bonds have been issued. Funding is provided primarily through user charges. For purposes of the government-wide financial statements, the Recreational Revenue Fund has been included with the governmental activities.

Additionally, the City reports the following fund types:

Internal Service Funds - The Internal Service Funds account for major machinery and equipment purchases and maintenance services provided to other departments of the City on a cost reimbursement basis.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of employee benefit plans that accumulate resources for pension and other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. Agency fund activity includes tax collections, a water plant feasibility study, and the general agency fund (District Court activity). Agency Funds are custodial in nature (assets equals liabilities) and do not involve the measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Funds.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Taxes - Properties are assessed as of December 31 and the related property taxes become a lien at that time. These taxes are billed on July 1 and December 1 of the following year, and are due on September 1 and February 14, respectively, with the final collection date of February 28 before they are added to the county tax rolls.

The 2005 taxable valuation of the City totaled \$1.837 billion, on which ad valorem taxes levied consisted of 6.3310 mills for the City's operating purposes, 2.3740 mills for sanitation, 2.5549 mills for the Police and Fire Retirement System, 1.5737 mills for Police and Fire operations, .0277 mills for community promotion, .9881 mills for residential streets, .9775 mills for water and sewer, 2.2302 mills for the Lake St. Clair Clean Water Initiative Project, and .9292 mills for the library. The ad valorem taxes levied raised \$11.4 million for operation, \$4.3 million for sanitation, \$4.6 million for the Police and Fire Retirement System, \$2.8 million for Police and Fire operations, \$.05 million for community promotion, \$1.8 million for residential streets, \$1.8 million for water and sewer, \$4.1 million for debt service, and \$1.7 million for the library.

The delinquent real property taxes of the City are purchased by Macomb County. The county sells tax notes, the proceeds of which are used to pay the City for these property taxes. Macomb County remitted its purchased delinquent real property taxes in April 2006. Macomb County delinquent real property taxes have been recorded as revenue in the current year.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for operations and maintenance, debt service principal and interest, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit with the Macomb County Department of Public Works being held for the construction, maintenance, and debt service of the City's storm drains. The City also has amounts on deposit with the Macomb County Drain Commission for use in the Lake St. Clair Water Initiative that have been classified as restricted assets.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets include all infrastructure acquired prior to the adoption of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in 2003. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------------------|----------------|
| Infrastructure | 8 to 40 years |
| Buildings and improvements | 20 to 50 years |
| County drains | 50 years |
| Land improvements | 15 to 30 years |
| Vehicles | 4 to 20 years |
| Furniture, fixtures, and equipment | 7 to 30 years |
| Water and sewer distribution systems | 50 years |
| Computer equipment | 5 to 15 years |

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick, vacation, and personal pay benefits. Under the City's policy, employees earn benefits based on time of service with the City. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday in April, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. As provided for by the City Charter, at a minimum, prior to the fourth Monday in June, the budget is legally adopted through passage of budget resolutions for each fund. An appropriation ordinance is approved by the City Council at the above-mentioned meeting.
4. The City manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, and Debt Service Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the above funds is presented as required and other supplemental information.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.
- Proceeds from long-term debt and related refunding have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Certain State grants are budgeted as federal revenue.

Deficits - The Tax Increment Finance Authority (TIFA), a discretely presented component unit, has negative net assets as of June 30, 2006 due to the reporting of a bond payable obligation. The funds of the TIFA, presented on a modified accrual basis, have positive fund balances at June 30, 2006.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of St. Clair Shores, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

| General Fund | Final Budget | Actual | Variance |
|--|--------------|-----------|------------|
| Interest and fiscal charges | \$ - | \$ 1,405 | \$ (1,405) |
| Special Revenue Funds | | | |
| Major Streets - General government | 254,198 | 255,030 | (832) |
| Local Streets - General government | 593,128 | 595,178 | (2,050) |
| Court Building - General government | 22,330 | 34,587 | (12,257) |
| Drug Law Enforcement - Public safety | 188,330 | 233,447 | (45,117) |
| Family Rental Program - Community and economic development | 21,000 | 27,828 | (6,828) |
| Debt Service Funds | | | |
| Debt Service - Public works department | 414,409 | 415,862 | (1,453) |
| SEMSD Clean Water Initiative - Interest and fiscal charges | 1,876,324 | 1,926,730 | (50,406) |
| SEMSD Clean Water Initiative - Transfers out | - | 513,796 | (513,796) |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

These unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

| | | |
|---------------------------------------|---------------|----------------------------|
| Cumulative shortfall at July 1, 2005 | | \$ (487,256) |
| Current year building permit revenue | | 482,577 |
| Related expenses: | | |
| Direct costs | \$ 524,301 | |
| Estimated indirect costs | <u>78,645</u> | |
| | | |
| Total construction code expenses | | <u>602,946</u> |
| | | |
| Cumulative shortfall at June 30, 2006 | | <u><u>\$ (607,625)</u></u> |

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The City's investment policy, adopted in accordance with State law, permits the City to invest in investment pools organized under the Surplus Funds Investment Act of 1982 and under the Investment Company Act of 1940. For mutual funds, the City may invest in funds registered under the Investment Company Act of 1940. This authorization is limited to investment pools and mutual funds whose intent is to maintain a net asset value of \$1.00 per share and allows for indirect investment in repurchase agreements and bankers' acceptances of United States banks, as allowable for direct investment by public corporations.

The City's Fiduciary Funds, the Pension Retirement Systems, and the Police and Fire Retiree Health Care Expendable Trust Fund are also authorized by Michigan Public Act 314 of 1965 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain State and local government obligations, and certain other specified investment vehicles.

As permitted by State statutes, and under the provisions of a Securities Lending Authorization Agreement, the Pension Retirement System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Pension Retirement System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2006, only United States currency was received as collateral.

The Pension Retirement Systems have not imposed any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The Pension Retirement Systems and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of each investment pool as of June 30, 2006 was 88 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2006, the Pension Retirement System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the Pension Retirement System as of June 30, 2006 was \$27,350,906 and \$26,645,397, respectively.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$27,250,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

| Investment | Fair Value | Weighted Average Maturity |
|--|--------------|---------------------------------|
| United States government obligations | \$ 6,440,550 | 13.85 years |
| United States government agency bonds or notes | 19,299,065 | 21.99 years |
| Collateralized mortgage obligations | 4,301,144 | 21.85 years |
| Corporate asset-backed securities | 3,514,538 | 10.55 years |
| Corporate bonds | 12,745,572 | 7.90 years |
| Foreign bonds | 304,068 | 43.03 years |
| Securities lending investment pool | 27,350,906 | 88 days |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|---|--------------|------------|---------------------|
| Bank investment pools | \$ 7,535,816 | AAA | Standard and Poor's |
| United States government agency bonds or notes | 19,299,065 | NR - AAA | Standard and Poor's |
| Collateralized mortgage obligations | 4,301,144 | NR - AAA | Standard and Poor's |
| Corporate asset-backed securities | 3,514,538 | AAA | Standard and Poor's |
| Corporate bonds (pension) | 12,745,572 | BBB- - AAA | Standard and Poor's |
| Foreign bonds | 304,068 | A | Standard and Poor's |
| Pension custodial accounts | 2,816,824 | Nonrated | |
| Securities lending investment pool | 27,350,906 | Nonrated | |

Concentration of Credit Risk - The City's investment policy requires the City to diversify investments by security type and institution, with no more than 50 percent of the City's total investment portfolio being invested in a single security type or with a single financial institution. The City's fiduciary funds are also subject to Michigan Public Act 485 of 1996, which states investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2006, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|----------------------------|
| General Fund | Local Streets Fund | \$ 8,622 |
| | Recreational Revenue Fund | 5,554 |
| | Utility Fund | 51,874 |
| | Nonmajor governmental funds | <u>140,250</u> |
| | Total General Fund | 206,300 |
| Major Streets Fund | General Fund | 198,313 |
| Local Streets Fund | General Fund | 77,547 |
| | Major Streets Fund | 123,311 |
| | Utility Fund | <u>3</u> |
| | Total Local Streets | 200,861 |
| SEMSD Clean Water Initiative Capital Projects Fund | Utility Fund | 50,650 |
| | SEMSD Clean Water Initiative | |
| | Capital Projects Fund | <u>149,208</u> |
| | Total SEMSD Clean Water Initiative Capital Projects Fund | 199,858 |
| Nonmajor Governmental Funds | General Fund | 310,485 |
| Recreational Revenue Fund | General Fund | 20,000 |
| Internal Service Funds | General Fund | 13,302 |
| | Utility Fund | <u>936</u> |
| | Total Internal Service Funds | <u>14,238</u> |
| | Total | <u><u>\$ 1,150,055</u></u> |

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers are comprised of the following:

| Fund Transferred From | Fund Transferred To | Amount |
|---|---|----------------|
| General Fund | Major Streets Fund | \$ 49,479 |
| | Local Streets Fund | (1) 701,450 |
| | Recreational Revenue Fund | (1) 187,150 |
| | Nonmajor governmental funds | (2)(3) 457,940 |
| | Total General Fund | 1,396,019 |
| Major Streets Fund | Local Streets Fund | (1) 715,000 |
| | Nonmajor governmental funds | (2) 958,848 |
| | Total Major Streets Fund | 1,673,848 |
| SEMSD Clean Water Initiative Debt Service Fund | SEMSD Clean Water Initiative Capital Projects Fund | (3) 513,796 |
| Nonmajor governmental funds | General Fund | 133,000 |
| | Local Streets Fund | (3) 374,347 |
| | Recreational Revenue Fund | 7,012 |
| | Total nonmajor governmental funds | 514,359 |
| | Total governmental funds | 4,098,022 |
| Utility Fund | Major Streets Fund | 17,400 |
| | Local Streets Fund | 40,600 |
| | Total Enterprise Funds | 58,000 |
| | Total | \$ 4,156,022 |

(1) Transfer of discretionary funds to be used for the benefit of the community

(2) Transfer for debt service payments

(3) Transfer for capital improvements

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

| | Balance July 1, 2005 | Additions | Disposals and Adjustments | Transfers | Balance June 30, 2006 |
|--|-------------------------|-----------|------------------------------|--------------|--------------------------|
| Governmental activities: | | | | | |
| Other governmental capital assets: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 10,115,191 | \$ 3,600 | \$ (25,456) | \$ - | \$ 10,093,335 |
| Construction in progress | 42,420,015 | 7,954,363 | - | (32,328,085) | 18,046,293 |
| Subtotal | 52,535,206 | 7,957,963 | (25,456) | (32,328,085) | 28,139,628 |
| Capital assets being depreciated: | | | | | |
| Infrastructure | 73,251,408 | 4,569,034 | (944,823) | 1,815,590 | 78,691,209 |
| Buildings and improvements | 17,162,452 | 209,710 | - | - | 17,372,162 |
| County drains | 2,941,165 | - | - | - | 2,941,165 |
| Land improvements | 12,079,595 | 68,225 | - | - | 12,147,820 |
| Furniture, fixtures, and equipment | 6,820,228 | 804,390 | (98,768) | - | 7,525,850 |
| Computer equipment | 2,669,334 | 256,858 | - | 10,587 | 2,936,779 |
| Subtotal | 114,924,182 | 5,908,217 | (1,043,591) | 1,826,177 | 121,614,985 |
| Accumulated depreciation: | | | | | |
| Infrastructure | 24,674,900 | 4,502,048 | (944,821) | - | 28,232,127 |
| Buildings and improvements | 7,962,801 | 628,469 | - | - | 8,591,270 |
| County drains | 1,058,968 | 58,823 | - | - | 1,117,791 |
| Land improvements | 3,800,047 | 351,138 | - | - | 4,151,185 |
| Furniture, fixtures, and equipment | 3,022,801 | 358,212 | (60,400) | - | 3,320,613 |
| Computer equipment | 1,731,716 | 327,979 | - | - | 2,059,695 |
| Subtotal | 42,251,233 | 6,226,669 | (1,005,221) | - | 47,472,681 |
| Net capital assets being depreciated | 72,672,949 | (318,452) | (38,370) | 1,826,177 | 74,142,304 |
| Net other governmental capital assets | 125,208,155 | 7,639,511 | (63,826) | (30,501,908) | 102,281,932 |
| Recreational Revenue Fund assets: | | | | | |
| Capital assets not being depreciated - | | | | | |
| Construction in progress | - | 1,000 | - | - | 1,000 |
| Capital assets being depreciated: | | | | | |
| Buildings and improvements | 2,372,777 | - | - | - | 2,372,777 |
| Land improvements | 4,658,346 | 16,800 | - | - | 4,675,146 |
| Furniture, fixtures, and equipment | 2,212,509 | 95,700 | (59,500) | - | 2,248,709 |
| Computer equipment | 13,585 | - | - | - | 13,585 |
| Subtotal | 9,257,217 | 112,500 | (59,500) | - | 9,310,217 |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2005 | Additions | Disposals and Adjustments | Transfers | Balance June 30, 2006 |
|---|-------------------------|--------------|------------------------------|-----------------|--------------------------|
| Governmental activities (Continued): | | | | | |
| Recreational Revenue Fund assets (Continued): | | | | | |
| Accumulated depreciation: | | | | | |
| Buildings and improvements | \$ 1,324,530 | \$ 78,939 | \$ - | \$ - | \$ 1,403,469 |
| Land improvements | 2,013,377 | 149,930 | - | - | 2,163,307 |
| Furniture, fixtures, and equipment | 1,161,129 | 100,164 | (42,500) | - | 1,218,793 |
| Computer equipment | 6,416 | 1,482 | - | - | 7,898 |
| Subtotal | 4,505,452 | 330,515 | (42,500) | - | 4,793,467 |
| Net Recreational Revenue Fund capital assets being depreciated | 4,751,765 | (218,015) | (17,000) | - | 4,516,750 |
| Net Recreation Revenue Fund capital assets | 4,751,765 | (217,015) | (17,000) | - | 4,517,750 |
| Motor Pool Fund capital assets: | | | | | |
| Capital assets not being depreciated - Vehicles not in service | - | 21,485 | - | - | 21,485 |
| Capital assets being depreciated: | | | | | |
| Buildings and improvements | 345,830 | - | - | - | 345,830 |
| Vehicles | 8,534,624 | 457,236 | (81,983) | - | 8,909,877 |
| Furniture, fixtures, and equipment | 193,790 | 3,625 | - | - | 197,415 |
| Subtotal | 9,074,244 | 460,861 | (81,983) | - | 9,453,122 |
| Accumulated depreciation: | | | | | |
| Buildings and improvements | 163,342 | 9,437 | - | - | 172,779 |
| Vehicles | 5,295,861 | 662,992 | (69,726) | - | 5,889,127 |
| Furniture, fixtures, and equipment | 116,393 | 10,584 | - | - | 126,977 |
| Subtotal | 5,575,596 | 683,013 | (69,726) | - | 6,188,883 |
| Net Motor Pool Fund capital assets being depreciated | 3,498,648 | (222,152) | (12,257) | - | 3,264,239 |
| Net Motor Pool Fund capital assets | 3,498,648 | (200,667) | (12,257) | - | 3,285,724 |
| Computer Replacement Fund capital assets - | | | | | |
| Capital assets being depreciated - Computer equipment | 97,094 | 179,624 | - | - | 276,718 |
| Accumulated depreciation - Computer equipment | 9,709 | 37,381 | - | - | 47,090 |
| Net Computer Replacement Fund capital assets being depreciated | 87,385 | 142,243 | - | - | 229,628 |
| Net Internal Service Fund capital assets | 3,586,033 | (58,424) | (12,257) | - | 3,515,352 |
| Governmental capital assets not being depreciated | 52,535,206 | 7,980,448 | (25,456) | (32,328,085) | 28,162,113 |
| Net governmental capital assets being depreciated | 81,010,747 | (616,376) | (67,627) | 1,826,177 | 82,152,921 |
| Net governmental activities capital assets | \$ 133,545,953 | \$ 7,364,072 | \$ (93,083) | \$ (30,501,908) | \$ 110,315,034 |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2005 | Additions | Disposals and Adjustments | Transfers | Balance June 30, 2006 |
|--|-------------------------|--------------|------------------------------|---------------|--------------------------|
| Business-type activities: | | | | | |
| Capital assets not being depreciated - | | | | | |
| Construction in progress | \$ 377,009 | \$ 1,823,155 | \$ - | \$ - | \$ 2,200,164 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 538,079 | 500,000 | - | - | 1,038,079 |
| Water and sewer distribution systems | 39,288,643 | 117,354 | - | 30,501,908 | 69,907,905 |
| Buildings and improvements | 5,076,577 | - | - | - | 5,076,577 |
| Furniture, fixtures, and equipment | 306,728 | 4,535 | - | - | 311,263 |
| Computer equipment | 415,918 | - | - | - | 415,918 |
| Subtotal | 45,625,945 | 621,889 | - | 30,501,908 | 76,749,742 |
| Accumulated depreciation: | | | | | |
| Land improvements | 201,561 | 26,269 | - | - | 227,830 |
| Water and sewer distribution systems | 17,801,391 | 886,436 | - | - | 18,687,827 |
| Building and improvements | 5,004,989 | 53,829 | - | - | 5,058,818 |
| Furniture, fixtures, and equipment | 227,096 | 14,467 | - | - | 241,563 |
| Computer equipment | 261,694 | 28,903 | - | - | 290,597 |
| Subtotal | 23,496,731 | 1,009,904 | - | - | 24,506,635 |
| Net capital assets being depreciated | 22,129,214 | (388,015) | - | 30,501,908 | 52,243,107 |
| Net capital assets | \$ 22,506,223 | \$ 1,435,140 | \$ - | \$ 30,501,908 | \$ 54,443,271 |

Depreciation expense was charged to programs of the primary government as follows:

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 765,000 |
| Public safety | 547,670 |
| Public works | 4,918,137 |
| Community and economic development | 43,487 |
| Recreation and culture | 1,003,284 |
| Total governmental activities | <u>\$ 7,277,578</u> |
| Business-type activities - Water and sewer | <u>\$ 1,009,904</u> |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end, including the Lake St. Clair Clean Water Initiative Construction project administered by the Macomb County Drain Commission. At June 30, 2006, the City's commitments with contractors are as follows:

| | Spent to Date | Remaining Commitment |
|--|----------------------|-------------------------|
| SEMSD Clean Water Initiative Capital Project | <u>\$ 43,053,000</u> | <u>\$ 13,473,000</u> |

The remaining project commitment is expected to be funded through County Drain obligations.

Note 6 - Changes in General Fund Reserved Fund Balance

| | Reserved For | | |
|--|----------------------------|---------------------|-----------------------|
| | Postemployment Benefits | Sanitation | Street Improvement |
| Reserved fund balances - July 1, 2005 | \$ 433,220 | \$ 4,975,066 | \$ 848 |
| Special tax levy | 4,602,395 | 371,053 | 170,000 |
| Interest on reserve balance | - | 218,849 | 9 |
| Sanitation expenditures | - | (3,773) | - |
| Transfer to Local Streets Fund | - | (20,000) | (170,000) |
| Postemployment benefit payments | <u>(4,611,754)</u> | <u>-</u> | <u>-</u> |
| Reserved fund balances - June 30, 2006 | <u>\$ 423,861</u> | <u>\$ 5,541,195</u> | <u>\$ 857</u> |

Note 7 - Restricted Assets

Specific assets of the Utility Fund and the Recreational Revenue Fund have been restricted for operations and maintenance, debt service, and bond reserve in connection with covenants established by revenue bond ordinances.

In addition, the City's governmental activities have funds held by the Macomb County Department of Public Works and the Macomb County Drain Commission on behalf of the City to be used for the construction and maintenance of storm drains, and the Lake St. Clair Clean Water Initiative, respectively, including related debt service.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Restricted Assets (Continued)

The following is the detail of restricted assets at June 30, 2006:

| | Governmental Activities | Business-type Activities |
|--|----------------------------|-----------------------------|
| Cash and cash equivalents: | | |
| Utility Fund Revenue Bonds required reserves: | | |
| Operations and maintenance | \$ - | \$ 1,310,309 |
| Debt service | - | 89,556 |
| Total Utility Fund | - | 1,399,865 |
| Recreational Revenue Fund Revenue Bond required reserves: | | |
| Operation and maintenance | 137,507 | - |
| Debt service | 65,324 | - |
| Bond reserve | 319,500 | - |
| Total Recreational Revenue Fund | 522,331 | - |
| Total cash and cash equivalents | 522,331 | 1,399,865 |
| Assets held by the Macomb County Dept. of Public Works for Storm Drains | 867,569 | - |
| Assets held by the Macomb County Drain Commission for use in the Lake St. Clair Clean Water Initiative | 13,473,383 | - |
| Total restricted assets | <u>\$ 14,863,283</u> | <u>\$ 1,399,865</u> |

Net assets have been restricted in an equivalent amount at June 30, 2006, net of liabilities payable from restricted assets of \$129,048 in the SEMSD Clean Water Initiative Construction Major Capital Projects Fund.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Retirement Plans

Plan Description

The City contributes to two single-employer defined benefit retirement plans: (1) the General Employees' Retirement System, covering general employees and (2) the Police and Fire Retirement System, covering certain police and fire department personnel. The City's and employees' obligations to contribute benefit provisions and all other requirements of the systems are established under City Charter and Michigan Act No. 345 of the Public Acts of 1937, as amended. The plans do not issue separate financial reports; however, financial statements are provided at the end of this Note.

At June 30, 2005, the date of the most recent actuarial valuation, membership in the plans consisted of the following:

| | Employees' Retirement System | Police and Fire Retirement System |
|--|------------------------------------|--|
| Retirees and beneficiaries of deceased retirees currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 220 | 169 |
| Current employees: | | |
| Vested | 53 | 83 |
| Nonvested | 81 | 46 |
| Total | 134 | 129 |

Annual Pension Costs

For the year ended June 30, 2006, the City's annual pension cost of \$2,321,893 for the Police and Fire Retirement System and \$1,809,655 for the General Employees' Retirement System was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the entry age actuarial cost method.

Note 8 - Retirement Plans (Continued)

Significant actuarial assumptions used include the assumption that benefits will increase with cost of living adjustments of 2.5 percent to 5 percent at age 60 or five years after retirement, whichever is later for the General Employees' Retirement System and whichever is first for the Police and Fire Retirement System, with additional increases of 2.5 percent to 5 percent three to seven years after the first increase. Other significant assumptions include the following:

| | Employees' Retirement System | Police and Fire Retirement System |
|--|------------------------------------|--|
| Rate of return on the investment of present and future assets, compounded annually | 8%* | 7.5%* |
| Projected salary increases, depending on age, attributable to seniority/merit, compounded annually | 4.5-9.4%* | 4.5-7.5%* |

* Includes an inflation component of 4.5 percent

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis for the General Employees' Retirement System and on an open basis for the Police and Fire Retirement System. The remaining amortization period is 10 years if overfunded and 25 years if underfunded for the Police and Fire Retirement System and 20 years for the General Employees' Retirement System.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Retirement Plans (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 2 percent to 5 percent and 0 percent to 1.5 percent of gross wages for the Police and Fire Retirement System and General Employees' Retirement System, respectively.

The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

The required supplemental information (see table of contents) contained in the additional information is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

Reserve Balances

The reserves for the retirement systems at June 30, 2006 consist of the following:

| | General Employees' Retirement System | Police and Fire Retirement System |
|---|---|--|
| Legally required reserves: | | |
| Reserved for employee contributions | \$ 567,365 | \$ 4,285,954 |
| Reserved for retiree benefit payments | 22,919,118 | 63,215,971 |
| Additional reserves: | | |
| Reserved for employer contributions | 18,916,834 | 28,479,171 |
| Reserved for excess earnings distribution | 491,860 | 2,421,414 |
| Total | <u>\$ 42,895,177</u> | <u>\$ 98,402,510</u> |

Three-year trend information is as follows:

| | General Employees' Retirement System | | | Police and Fire Retirement System | | |
|-------------------------------|--------------------------------------|--------------|--------------|-----------------------------------|--------------|-----------|
| | Fiscal Year Ended June 30 | | | Fiscal Year Ended June 30 | | |
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Annual pension cost (APC) | \$ 1,809,655 | \$ 1,605,170 | \$ 1,420,497 | \$ 2,321,893 | \$ 1,024,702 | \$ 86,089 |
| Percentage of APC contributed | 100% | 100% | 100% | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Retirement Plans (Continued)

Condensed financial statements of the City's defined benefit retirement plans and retirement health care plan follow:

| | General Employees' Retirement System | Police and Fire Retirement System | Police and Fire Retiree Health Care Fund |
|--|---|---|--|
| Assets | | | |
| Cash | \$ 515,814 | \$ 570,523 | \$ 82,458 |
| Investments | 42,239,796 | 97,461,769 | 1,899,019 |
| Securities lending short-term collateral bank investment pool | 6,863,884 | 20,487,022 | - |
| Accrued interest receivable | 139,567 | 370,218 | 5,431 |
| Total assets | 49,759,061 | 118,889,532 | 1,986,908 |
| Liabilities - Amounts due to broker under securities lending agreement | 6,863,884 | 20,487,022 | - |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 42,895,177</u> | <u>\$ 98,402,510</u> | <u>\$ 1,986,908</u> |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Retirement Plans (Continued)

| | General Employees' Retirement System | Police and Fire Retirement System | Police and Fire Retiree Health Care Fund |
|--|---|---|--|
| Additions | | | |
| Investment income: | | | |
| Interest and dividends | \$ 1,371,087 | \$ 3,201,962 | \$ 158,372 |
| Net increase in fair value of investments | 1,380,278 | 5,622,293 | - |
| Less investment expenses | (258,941) | (524,388) | (21,193) |
| Net investment income | 2,492,424 | 8,299,867 | 137,179 |
| Securities lending income: | | | |
| Interest and fees | 201,664 | 692,060 | - |
| Less borrower rebates and bank fees | (191,931) | (653,181) | - |
| Net securities lending income | 9,733 | 38,879 | - |
| Contributions: | | | |
| Employer | 1,809,655 | 2,321,893 | 250,000 |
| Employee | 27,769 | 479,130 | - |
| Total contributions | 1,837,424 | 2,801,023 | 250,000 |
| Total additions | 4,339,581 | 11,139,769 | 387,179 |
| Deductions | | | |
| Benefit payments | 3,809,284 | 6,333,492 | - |
| Refunds of contributions | - | 4,911 | - |
| Administrative expenses | 25,286 | 24,830 | - |
| Total deductions | 3,834,570 | 6,363,233 | - |
| Net Increase | 505,011 | 4,776,536 | 387,179 |
| Net Assets Held in Trust for Pension | | | |
| Benefits | | | |
| Beginning of year | 42,390,166 | 93,625,974 | 1,599,729 |
| End of year | <u>\$ 42,895,177</u> | <u>\$ 98,402,510</u> | <u>\$ 1,986,908</u> |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Fund Financial Statements | | | Government-wide Financial Statements |
|-------------------------|---------------------------|-----------------|------------------|--------------------------------------|
| | Unavailable | Unearned | Total | Unearned |
| Grant revenue | \$ 17,759 | \$ 3,498 | \$ 21,257 | \$ 3,498 |
| Special assessments | 55,804 | - | 55,804 | - |
| Total restricted assets | <u>\$ 73,563</u> | <u>\$ 3,498</u> | <u>\$ 77,061</u> | <u>\$ 3,498</u> |

Note 10 - Leases

Capital Leases - The City has entered into lease agreements as lessee for financing the purchase of heating and air conditioning units and various other City renovations. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date (see Note 11). The cost and accumulated depreciation of the assets under capital leases as of June 30, 2006 total approximately \$1,515,000 and \$711,000, respectively. The future minimum lease obligations and the net present value are as follows:

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 10 - Leases (Continued)

The future minimum lease payments for all capital leases for the years ending June 30, 2007 through June 30, 2011 and in total are as follows:

| <u>Years Ending</u> <u>June 30</u> | <u>Amount</u> |
|---------------------------------------|-------------------|
| 2007 | \$ 176,366 |
| 2008 | 141,886 |
| 2009 | 96,546 |
| 2010 | 51,204 |
| 2011 | - |
| Total minimum lease payments | 466,002 |
| Less amount representing interest | <u>(29,653)</u> |
| Present value at June 30, 2006 | <u>\$ 436,349</u> |

Note 11 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities. Compensated absences are typically liquidated with funds from the General Fund, Local Streets Fund, Recreational Revenue Fund, Utility Fund, and the Internal Service Funds.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | (Reductions) | Transfers | Ending Balance | Due Within One Year |
|--|----------------------------|---------------------------------|----------------------|------------|--------------|--------------|----------------|------------------------|
| Governmental activities: | | | | | | | | |
| Other governmental obligations: | | | | | | | | |
| Milk River Drain Drainage District: | | | | | | | | |
| Amount of Issue - \$93,464 | 2.50%- | \$6,934 | | | | | | |
| Maturing through 2013 | 8.50% | \$8,211 | \$ 61,018 | \$ - | \$ (6,934) | \$ - | \$ 54,084 | \$ 7,122 |
| 2001 Lake St. Clair Clean Water Initiative: | | | | | | | | |
| Amount of Issue - \$51,644,703 | 2.500%- | \$1,651,445 | | | | | | |
| Maturing through 2029 | 5.125% | \$2,110,969 | 33,069,958 | 16,023,220 | (1,651,445) | (30,501,908) | 16,939,825 | 604,079 |
| General obligation bonds: | | | | | | | | |
| 1990 Michigan Transportation Fund Bonds: | | | | | | | | |
| Amount of Issue - \$1,800,000 | | | | | | | | |
| Maturing through 2006 | 5.00% | \$200,000 | 200,000 | - | (200,000) | - | - | - |
| 1999 Michigan Transportation Fund Refunding Bonds: | | | | | | | | |
| Amount of Issue - \$1,625,000 | 3.70% - | | | | | | | |
| Maturing through 2006 | 3.80% | \$255,000 | 255,000 | - | (255,000) | - | - | - |
| 2001 Michigan Transportation Fund Bonds: | | | | | | | | |
| Amount of Issue - \$4,200,000 | 3.20% - | \$345,000 - | | | | | | |
| Maturing through 2013 | 4.25% | \$465,000 | 3,660,000 | - | (345,000) | - | 3,315,000 | 355,000 |
| 1997 Building Authority Arena bonds: | | | | | | | | |
| Amount of Issue - \$1,500,000 | 4.80% - | \$105,000 - | | | | | | |
| Maturing through 2012 | 5.30% | \$140,000 | 850,000 | - | (105,000) | - | 745,000 | 110,000 |
| Total general and other governmental obligations | | | 38,095,976 | 16,023,220 | (2,563,379) | (30,501,908) | 21,053,909 | 1,076,201 |
| Capital lease obligations: | | | | | | | | |
| Honeywell: | | | | | | | | |
| Amount of Issue - \$574,272 | | \$42,375 - | | | | | | |
| Maturing through 2009 | 3.49% | \$138,708 | 375,053 | - | (138,704) | - | 236,349 | 111,403 |
| National City Bank: | | | | | | | | |
| Amount of Issue - \$500,000 | | | | | | | | |
| Maturing through 2009 | 4.82% | \$50,000 | 250,000 | - | (50,000) | - | 200,000 | 50,000 |
| Total capital lease obligations | | | 625,053 | - | (188,704) | - | 436,349 | 161,403 |
| Other long-term obligations: | | | | | | | | |
| Noncurrent portion of general liability claims and workers' compensation (Note 12) | | | | | | | | |
| | | | 743,960 | - | (230,152) | - | 513,808 | 85,617 |
| Compensated absences | | | | | | | | |
| | | | 4,538,806 | 2,204,781 | (1,800,764) | - | 4,942,823 | 1,408,576 |
| Total other long-term obligations | | | 5,282,766 | 2,204,781 | (2,030,916) | - | 5,456,631 | 1,494,193 |
| Subtotal | | | 44,003,795 | 18,228,001 | (4,782,999) | (30,501,908) | 26,946,889 | 2,731,797 |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Long-term Debt (Continued)

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | (Reductions) | Transfers | Ending Balance | Due Within One Year |
|---|----------------------------|---------------------------------|----------------------|---------------|----------------|--------------|----------------|------------------------|
| Recreational revenue obligations: | | | | | | | | |
| Revenue Bonds: | | | | | | | | |
| 2003 Recreational Revenue Refunding Bonds: | | | | | | | | |
| Amount of Issue - \$3,980,000 | 2.00% - | \$270,000 - | | | | | | |
| Maturing through 2016 | 4.30% | \$375,000 | \$ 3,465,000 | \$ - | \$ (270,000) | \$ - | \$ 3,195,000 | \$ 275,000 |
| Less unamortized discount on issuance | | | (112,537) | - | 25,037 | - | (87,500) | (23,601) |
| Deferred amount on refunding | | | (309,806) | - | 68,924 | - | (240,882) | (64,972) |
| Other long-term obligations: | | | | | | | | |
| Noncurrent portion of general liability claims and workers' compensation (Note 12) | | | 117,240 | - | (20,967) | - | 96,273 | 96,273 |
| Compensated absences | | | 31,404 | 14,446 | (9,578) | - | 36,272 | 10,507 |
| Subtotal - Recreational revenue obligations | | | 3,191,301 | 14,446 | (206,584) | - | 2,999,163 | 293,207 |
| Internal Service Fund Obligations - Motor Pool Fund: | | | | | | | | |
| Noncurrent portion of general liability claims and workers' compensation (Note 12) | | | - | 795 | - | - | 795 | 795 |
| Compensated absences | | | 26,857 | 7,877 | (10,464) | - | 24,270 | 5,129 |
| Total governmental activities | | | 47,221,953 | 18,251,119 | (5,000,047) | (30,501,908) | 29,971,117 | 3,030,928 |
| Business-type activities: | | | | | | | | |
| Revenue bonds: | | | | | | | | |
| Water and Sewer Revenue Bonds: | | | | | | | | |
| 2004 refunding bond | | | | | | | | |
| Amount of issue - \$2,050,000 | 2.75% - | \$130,000 - | | | | | | |
| Maturing through 2017 | 3.90% | \$215,000 | 2,050,000 | - | (130,000) | - | 1,920,000 | 150,000 |
| Less unamortized discount on issuance | | | (60,180) | - | 2,815 | - | (57,365) | (3,857) |
| Deferred amount on refunding | | | (44,820) | - | 2,097 | - | (42,723) | (5,180) |
| Total bond obligations | | | 1,945,000 | - | (125,088) | - | 1,819,912 | 140,963 |
| Other governmental obligations: | | | | | | | | |
| 2001 Lake St. Clair Clean Water Initiative: | | | | | | | | |
| Amount of Issue - \$30,501,908 | 2.500%- | \$1,651,445 | | | | | | |
| Maturing through 2029 | 5.125% | \$2,110,969 | - | - | - | 30,501,908 | 30,501,908 | 1,082,818 |
| Other long-term obligations: | | | | | | | | |
| Noncurrent portion of general liability claims and workers' compensation (Note 12) | | | - | 22,940 | - | - | 22,940 | 22,940 |
| Compensated absences | | | 139,740 | 84,918 | (90,893) | - | 133,765 | 32,065 |
| Total business-type activities | | | 2,084,740 | 107,858 | (215,981) | 30,501,908 | 32,478,525 | 1,278,786 |
| Total governmental and business- type activities | | | \$ 49,306,693 | \$ 18,358,977 | \$ (5,216,028) | \$ - | \$ 62,449,642 | \$ 4,309,714 |
| Component units - 1997 Tax Increment Finance | | | | | | | | |
| Authority Development Bonds: | | | | | | | | |
| Amount of Issue - \$3,500,000 | 4.70% - | \$245,000 - | | | | | | |
| Maturing through 2012 | 5.25% | \$415,000 | \$ 2,365,000 | \$ - | \$ (245,000) | \$ - | \$ 2,120,000 | \$ 285,000 |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond, note, and capital lease obligations are as follows:

| | Governmental Activities | | | | | | | | |
|-----------|-------------------------|--------------|---------------|--------------------|------------|--------------|-------------------------------|--------------|---------------|
| | General Obligations | | | Recreation Revenue | | | Total Governmental Activities | | |
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Grand Total |
| 2007 | \$ 1,237,603 | \$ 796,537 | \$ 2,034,140 | \$ 186,427 | \$ 116,190 | \$ 302,617 | \$ 1,424,030 | \$ 912,727 | \$ 2,336,757 |
| 2008 | 1,253,376 | 752,666 | 2,006,042 | 201,108 | 109,590 | 310,698 | 1,454,484 | 862,256 | 2,316,740 |
| 2009 | 1,250,935 | 706,902 | 1,957,837 | 209,900 | 101,040 | 310,940 | 1,460,835 | 807,942 | 2,268,777 |
| 2010 | 1,247,008 | 661,225 | 1,908,233 | 224,183 | 92,340 | 316,523 | 1,471,191 | 753,565 | 2,224,756 |
| 2011 | 1,244,338 | 615,250 | 1,859,588 | 310,000 | 82,440 | 392,440 | 1,554,338 | 697,690 | 2,252,028 |
| 2012-2016 | 5,223,652 | 2,421,467 | 7,645,119 | 1,735,000 | 223,140 | 1,958,140 | 6,958,652 | 2,644,607 | 9,603,259 |
| 2017-2021 | 4,376,857 | 1,659,433 | 6,036,290 | - | - | - | 4,376,857 | 1,659,433 | 6,036,290 |
| 2022-2026 | 3,397,026 | 894,022 | 4,291,048 | - | - | - | 3,397,026 | 894,022 | 4,291,048 |
| 2027-2031 | 2,259,463 | 236,062 | 2,495,525 | - | - | - | 2,259,463 | 236,062 | 2,495,525 |
| Total | \$ 21,490,258 | \$ 8,743,564 | \$ 30,233,822 | \$ 2,866,618 | \$ 724,740 | \$ 3,591,358 | \$ 24,356,876 | \$ 9,468,304 | \$ 33,825,180 |

| | Business-type Activities | | | Component Units | | |
|-----------|--------------------------|---------------|---------------|-----------------|------------|--------------|
| | Utility Fund | | | TIFA | | |
| | Principal | Interest | Total | Principal | Interest | Total |
| 2007 | \$ 1,223,781 | \$ 1,170,726 | \$ 2,394,507 | \$ 285,000 | \$ 99,996 | \$ 384,996 |
| 2008 | 1,254,702 | 1,131,855 | 2,386,557 | 315,000 | 85,368 | 400,368 |
| 2009 | 1,286,986 | 1,091,721 | 2,378,707 | 335,000 | 54,510 | 389,510 |
| 2010 | 1,330,000 | 1,049,901 | 2,379,901 | 375,000 | 51,599 | 426,599 |
| 2011 | 1,374,638 | 1,006,425 | 2,381,063 | 395,000 | 31,959 | 426,959 |
| 2012-2016 | 7,576,446 | 4,319,022 | 11,895,468 | 415,000 | 10,894 | 425,894 |
| 2017-2021 | 8,082,274 | 2,991,730 | 11,074,004 | - | - | - |
| 2022-2026 | 6,115,790 | 1,609,542 | 7,725,332 | - | - | - |
| 2027-2031 | 4,077,203 | 424,993 | 4,502,196 | - | - | - |
| Total | \$ 32,321,820 | \$ 14,795,915 | \$ 47,117,735 | \$ 2,120,000 | \$ 334,326 | \$ 2,454,326 |

Refunding - In prior years, the City has defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2006, \$2,345,000 of bonds outstanding are considered defeased.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 12 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal Risk Management Authority (the "Authority") risk pool program for claims related to liability, auto, and property. The program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although funds are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City is self-funded for workers' compensation and medical benefits up to a retention amount, at which time the City's reinsurance coverage begins. Listed below is an analysis by category of the City's risk of loss.

The City estimates the liability for property loss, general liability, workers' compensation, and medical benefits claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from the settlement of losses will be reflected in earnings at the time the adjustments are determined. The estimated liability for property loss, general liability, and medical claims is recorded within the governmental activities column of the statement of net assets. The estimated liability for workers' compensation is recorded within the governmental activities and business-type activities columns of the statement of net assets. Changes in the estimated liability for the past two fiscal years were as follows:

| | Liability, Auto, and Property | | Workers' Compensation | | Medical Benefit Plan | |
|-----------------------|-------------------------------|------------|-----------------------|------------|----------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Estimated liability - | | | | | | |
| Beginning of year | \$ 322,366 | \$ 381,783 | \$ 494,338 | \$ 510,106 | \$ 44,496 | \$ (39,123) |
| Estimated claims | | | | | | |
| incurred, including | | | | | | |
| changes in estimates | 230,967 | 305,055 | (86,382) | 176,082 | 4,873,540 | 4,783,958 |
| Claim payments | (270,075) | (364,472) | (87,690) | (191,850) | (4,887,743) | (4,700,339) |
| Estimated liability - | | | | | | |
| End of year | \$ 283,258 | \$ 322,366 | \$ 320,266 | \$ 494,338 | \$ 30,293 | \$ 44,496 |

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2006

Note 13 - Other Postemployment Benefits

In addition to providing pension benefits, the City provides certain health care benefits to all full-time employees and their spouses and dependents upon retirement, in accordance with labor contracts. As of the most recent actuarial valuations dated June 30, 2005, 343 retirees were eligible. The City includes pre-Medicare retirees and their dependents in its health care plan, with no contribution required by the participants. The City provides Medicare supplemental benefits for retirees eligible for Medicare. Expenditures for postemployment health care insurance are recognized as the insurance premiums become due. Premiums and benefits for the retirees, their spouses, and dependents are paid annually from the General Fund and the Employees' Retirement Systems. Payments totaled approximately \$3,624,000 for the year ended June 30, 2006.

Note 14 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage disposal to participating municipalities in Macomb County, Michigan. Other members include the cities of Roseville and Eastpointe, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest of \$7,605,858 is recorded in the Utility Fund financial statements and within the business-type activities column in the statement of net assets. Complete financial statements for the South Macomb Sanitary District can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, Eastpointe, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest in the Authority's operating reserve of \$579,789 is recorded within the governmental activities column of the statement of net assets. The Authority also has reserves totaling approximately \$4,758,000 that have been designated for self-insurance activities; the participating community's equity interest in the insurance reserve is not determinable. Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 15 - Upcoming Accounting and Reporting Change

The Governmental Accounting Standards Board has recently issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new standard will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the fiscal year ending June 30, 2009.

Required Supplemental Information

City of St. Clair Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued on subsequent page) Year Ended June 30, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|--------------------|-----------------|---------------|-------------------------------|
| Revenues | | | | |
| Property taxes | \$ 25,240,281 | \$ 25,535,281 | \$ 25,733,620 | \$ 198,339 |
| State-shared revenue, state grants, and entitlements | 5,826,037 | 5,872,137 | 6,291,763 | 419,626 |
| Federal grants | 550,510 | 715,092 | 759,208 | 44,116 |
| Licenses and permits | 1,600,650 | 1,375,650 | 1,429,410 | 53,760 |
| Charges for services: | | | | |
| Major and local streets | 778,000 | 778,000 | 778,000 | - |
| Municipal activities building | 1,117,297 | 1,117,297 | 1,047,635 | (69,662) |
| Recreation | 310,525 | 310,525 | 293,600 | (16,925) |
| Ambulance | 850,000 | 850,000 | 974,927 | 124,927 |
| Water and sewer administrative charge | 1,249,000 | 1,249,000 | 1,249,000 | - |
| Library reimbursements | 74,000 | 74,000 | 74,000 | - |
| Motorpool reimbursements | 213,000 | 213,000 | 213,000 | - |
| Other charges for services | 1,686,138 | 1,781,138 | 1,333,359 | (447,779) |
| Total charges for services | 6,277,960 | 6,372,960 | 5,963,521 | (409,439) |
| Investment income | 295,000 | 950,000 | 1,064,622 | 114,622 |
| Court fines and forfeitures: | | | | |
| District Court fees | 1,750,000 | 1,850,000 | 1,962,556 | 112,556 |
| Book fines and fees | 51,000 | 51,000 | 51,559 | 559 |
| Total court fines and forfeitures | 1,801,000 | 1,901,000 | 2,014,115 | 113,115 |
| Other income | 525,700 | 1,262,129 | 1,596,980 | 334,851 |
| Total revenues | 42,117,138 | 43,984,249 | 44,853,239 | 868,990 |
| Expenditures | | | | |
| General government: | | | | |
| Legislative | 86,369 | 86,639 | 83,485 | 3,154 |
| Judicial | 1,735,425 | 1,714,624 | 1,511,126 | 203,498 |
| Executive | 483,247 | 461,984 | 412,371 | 49,613 |
| Election | 670,195 | 689,814 | 599,086 | 90,728 |
| Finance | 1,072,292 | 1,234,632 | 1,088,953 | 145,679 |
| Attorney | 410,000 | 410,000 | 343,179 | 66,821 |
| Building maintenance | 845,092 | 872,202 | 814,395 | 57,807 |
| Assessor | 429,650 | 429,639 | 381,962 | 47,677 |
| Information systems | 428,223 | 453,223 | 376,870 | 76,353 |
| General government | 5,192,614 | 5,261,664 | 4,447,698 | 813,966 |
| Boards and commissions | 89,742 | 89,742 | 63,050 | 26,692 |
| Insurance/Claims | 1,157,000 | 1,847,000 | 1,162,736 | 684,264 |
| Total general government | 12,599,849 | 13,551,163 | 11,284,911 | 2,266,252 |

City of St. Clair Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|-----------------------------|-----------------------------|-----------------------------|-------------------------------|
| Expenditures (Continued) | | | | |
| Public safety: | | | | |
| Police | \$ 11,886,156 | \$ 12,199,084 | \$ 11,217,595 | \$ 981,489 |
| Fire | <u>6,432,142</u> | <u>6,356,315</u> | <u>5,709,520</u> | <u>646,795</u> |
| Total public safety | 18,318,298 | 18,555,399 | 16,927,115 | 1,628,284 |
| Public works: | | | | |
| Public works administration | 140,113 | 140,113 | 133,704 | 6,409 |
| Sanitation | <u>3,119,519</u> | <u>3,119,519</u> | <u>3,036,902</u> | <u>82,617</u> |
| Total public works | 3,259,632 | 3,259,632 | 3,170,606 | 89,026 |
| Community and economic development | 2,577,502 | 2,480,311 | 1,775,113 | 705,198 |
| Recreational and cultural: | | | | |
| Parks and recreation administration | 649,377 | 649,267 | 586,663 | 62,604 |
| Recreation | 278,725 | 278,725 | 261,447 | 17,278 |
| Parks | 949,834 | 1,047,293 | 948,217 | 99,076 |
| Arena | 893,746 | 926,746 | 809,550 | 117,196 |
| Senior center | 425,706 | 420,706 | 374,703 | 46,003 |
| Library and information services | <u>1,977,901</u> | <u>1,981,901</u> | <u>1,767,781</u> | <u>214,120</u> |
| Total recreational and cultural | <u>5,175,289</u> | <u>5,304,638</u> | <u>4,748,361</u> | <u>556,277</u> |
| Interest and fiscal changes | - | - | 1,405 | (1,405) |
| Transfers out | <u>1,437,830</u> | <u>1,216,859</u> | <u>1,646,019</u> | <u>(429,160)</u> |
| Total expenditures | <u>43,368,400</u> | <u>44,368,002</u> | <u>39,553,530</u> | <u>4,814,472</u> |
| Excess of Revenues Over (Under) Expenditures | (1,251,262) | (383,753) | 5,299,709 | 5,683,462 |
| Fund Balance - Beginning of year | <u>12,346,111</u> | <u>12,346,111</u> | <u>12,346,111</u> | <u>-</u> |
| Fund Balance - End of year | <u><u>\$ 11,094,849</u></u> | <u><u>\$ 11,962,358</u></u> | <u><u>\$ 17,645,820</u></u> | <u><u>\$ 5,683,462</u></u> |

City of St. Clair Shores, Michigan

| | Major Streets | | | |
|---|---------------------|------------------|-------------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance with Final Budget |
| Revenues | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| State-shared revenue, state grants, and entitlements | 2,672,263 | 2,672,263 | 2,527,380 | (144,883) |
| Right-of-way fees | - | - | - | - |
| Investment income | 10,000 | 22,000 | 24,015 | 2,015 |
| Other income | - | 71,620 | 71,620 | - |
| Transfers in | 66,879 | 66,879 | 66,880 | 1 |
| Total revenues | 2,749,142 | 2,832,762 | 2,689,895 | (142,867) |
| Expenditures | | | | |
| General government | 264,132 | 254,198 | 255,030 | (832) |
| Public works | 935,960 | 1,734,227 | 1,125,929 | 608,298 |
| Transfers out | 1,322,523 | 1,674,523 | 1,673,848 | 675 |
| Total expenditures | 2,522,615 | 3,662,948 | 3,054,807 | 608,141 |
| Excess of Revenues Over (Under) Expenditures | 226,527 | (830,186) | (364,912) | 465,274 |
| Fund Balances - Beginning of year | 844,099 | 844,099 | 844,099 | - |
| Fund Balances - End of year | \$ 1,070,626 | \$ 13,913 | \$ 479,187 | \$ 465,274 |

Required Supplemental Information
Budgetary Comparison Schedule
Major Special Revenue Funds
Year Ended June 30, 2006

| Local Streets | | | |
|--------------------------|-------------------------|--------------------------|-------------------------------|
| Original Budget | Final Budget | Actual | Variance with Final Budget |
| \$ 1,780,184 | \$ 1,780,184 | \$ 1,779,822 | \$ (362) |
| 1,045,624 | 1,045,624 | 988,278 | (57,346) |
| 206,000 | 206,000 | 160,753 | (45,247) |
| 10,000 | 10,000 | 18,872 | 8,872 |
| 8,000 | 101,000 | 68,385 | (32,615) |
| <u>1,563,081</u> | <u>1,901,551</u> | <u>1,831,396</u> | <u>(70,155)</u> |
| 4,612,889 | 5,044,359 | 4,847,506 | (196,853) |
| 616,307 | 593,128 | 595,178 | (2,050) |
| 3,999,254 | 4,699,778 | 4,235,380 | 464,398 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>4,615,561</u> | <u>5,292,906</u> | <u>4,830,558</u> | <u>462,348</u> |
| (2,672) | (248,547) | 16,948 | 265,495 |
| <u>289,206</u> | <u>289,206</u> | <u>289,206</u> | <u>-</u> |
| <u>\$ 286,534</u> | <u>\$ 40,659</u> | <u>\$ 306,154</u> | <u>\$ 265,495</u> |

City of St. Clair Shores, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress June 30, 2006

The schedule of funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Accrued Liability (AAL) Entry Age (b) | Unfunded (Overfunded) AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | Unfunded (Overfunded) AAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|---|---------------------------------------|---------------------------|--|
|--------------------------------|--|---|---|---------------------------------------|---------------------------|--|

General Employees' Retirement System

| | | | | | | |
|----------|---------------|---------------|----------------|-------|--------------|--------|
| 06/30/00 | \$ 45,543,504 | \$ 41,410,247 | \$ (4,133,257) | 110.0 | \$ 7,543,720 | (54.8) |
| 06/30/01 | 45,968,083 | 42,648,906 | (3,319,177) | 107.8 | 7,316,759 | (45.4) |
| 06/30/02 | 43,840,530 | 45,610,034 | 1,769,504 | 96.1 | 7,868,956 | 22.5 |
| 06/30/03 | 42,168,775 | 47,200,490 | 5,031,715 | 89.3 | 7,324,919 | 68.7 |
| 06/30/04 | 41,259,961 | 49,337,849 | 8,077,888 | 83.6 | 6,969,930 | 115.9 |
| 06/30/05 | 41,062,064 | 50,931,381 | 9,869,317 | 80.6 | 6,532,301 | 151.1 |

Police and Fire Retirement System

| | | | | | | |
|----------|----------------|---------------|-----------------|-------|--------------|---------|
| 06/30/00 | \$ 110,243,719 | \$ 81,816,157 | \$ (28,427,562) | 134.7 | \$ 9,169,906 | (310.0) |
| 06/30/01 | 113,344,804 | 86,607,994 | (26,736,810) | 130.9 | 9,353,854 | (285.8) |
| 06/30/02 | 108,832,118 | 90,182,317 | (18,649,801) | 120.7 | 9,566,435 | (195.0) |
| 06/30/03 | 101,683,192 | 93,967,332 | (7,715,860) | 108.2 | 9,387,845 | (82.2) |
| 06/30/04 | 94,640,250 | 98,335,479 | 3,695,229 | 96.2 | 9,687,275 | 38.1 |
| 06/30/05 | 90,853,624 | 104,248,328 | 13,394,704 | 87.2 | 10,307,055 | 130.0 |

City of St. Clair Shores, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress (Continued) June 30, 2006

The schedule of employer contributions is as follows:

General Employees' Retirement System

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|-----------------------|---------------------------------|---------------------------|
| 2001 | \$ 880,726 | 100 |
| 2002 | 894,141 | 100 |
| 2003 | 1,050,063 | 100 |
| 2004 | 1,420,497 | 100 |
| 2005 | 1,605,170 | 100 |
| 2006 | 1,809,655 | 100 |

Police and Fire Retirement System

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|-----------------------|---------------------------------|---------------------------|
| 2001 | \$ 55,133 | 100 |
| 2002 | 69,906 | 100 |
| 2003 | 77,559 | 100 |
| 2004 | 86,089 | 100 |
| 2005 | 1,024,702 | 100 |
| 2006 | 2,321,893 | 100 |

Additional information as of June 30, 2005, the latest actuarial valuation, is as follows:

| | General Employees' Retirement System | Police and Fire Retirement System |
|-------------------------------|---|---|
| Actuarial cost method | Entry age | Entry age |
| Amortization method | Level percent, closed | Level percent, open |
| Remaining amortization period | 20 years | 10 years if overfunded 25 years if underfunded |
| Asset valuation method | 4-year smoothed market | 4-year smoothed market |
| Actuarial assumptions: | | |
| Investment rate of return* | 8.00% | 7.5% |
| Projected salary increases* | 4.5%-9.4% | 4.5%-7.5% |
| *Includes inflation at | 4.5% | 4.5% |

City of St. Clair Shores, Michigan

Note to Required Supplemental Information June 30, 2006

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

| | General Fund | | Major Special Revenue Funds | | | |
|--|----------------------|-----------------------|-----------------------------|-----------------------|---------------------|-----------------------|
| | | | Major Streets | | Local Streets | |
| | Total Revenue | Total Expenditures | Total Revenue | Total Expenditures | Total Revenue | Total Expenditures |
| Amounts per operating statement | \$ 41,835,226 | \$ 35,272,498 | \$ 2,623,015 | \$ 1,380,959 | \$ 3,016,110 | \$ 4,830,558 |
| Transfers recorded as revenue and expenditures | 133,000 | 1,396,019 | 66,880 | 1,673,848 | 1,831,396 | - |
| Reimbursements from other funds recorded as revenue | 2,885,013 | 2,885,013 | - | - | - | - |
| Amounts per budget statement | <u>\$ 44,853,239</u> | <u>\$ 39,553,530</u> | <u>\$ 2,689,895</u> | <u>\$ 3,054,807</u> | <u>\$ 4,847,506</u> | <u>\$ 4,830,558</u> |

Other Supplemental Information

City of St. Clair Shores, Michigan

| Nonmajor Special Revenue Funds | | | | | | |
|--|----------------------|-------------------|-------------------|-------------------------|---|--------------------------|
| | Library State Aid | Library Penal | Court Building | Drug Law Enforcement | Community Development Block Grant | Family Rental Program |
| Assets | | | | | | |
| Cash and investments | \$ 35,746 | \$ 68,672 | \$ 755,275 | \$ 629,273 | \$ 14,344 | \$ 19,502 |
| Due from other governmental units | 22,874 | 84,749 | 42,097 | - | 83,291 | - |
| Due from other funds | - | - | 725 | - | - | - |
| Total assets | <u>\$ 58,620</u> | <u>\$ 153,421</u> | <u>\$ 798,097</u> | <u>\$ 629,273</u> | <u>\$ 97,635</u> | <u>\$ 19,502</u> |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 11,437 | \$ - | \$ - | \$ - | \$ 32,315 | \$ 289 |
| Accrued and other liabilities | - | - | - | 17,755 | - | 3,812 |
| Due to other funds | 21,000 | 53,000 | - | - | 65,320 | 930 |
| Total liabilities | 32,437 | 53,000 | - | 17,755 | 97,635 | 5,031 |
| Fund Balances - Unreserved | 26,183 | 100,421 | 798,097 | 611,518 | - | 14,471 |
| Total liabilities and fund balances | <u>\$ 58,620</u> | <u>\$ 153,421</u> | <u>\$ 798,097</u> | <u>\$ 629,273</u> | <u>\$ 97,635</u> | <u>\$ 19,502</u> |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

| Nonmajor Debt Service Funds | | | | | | Nonmajor Capital Projects Funds | |
|-----------------------------|-------------------------|------------------------|--------------------|---------------------|----------------------|------------------------------------|---|
| Debt Service | Building Authority | 1989 MVH | 1990 MVH | 1991 MVH | 1994 MVH | Harper Ave Street Scape | Total Nonmajor Governmental Funds |
| \$ 120,431 | \$ 35,782 | \$ 4,239 | \$ - | \$ 54 | \$ 885 | \$ - | \$ 1,684,203 |
| - | - | - | - | - | - | - | 233,011 |
| - | - | - | - | - | - | 309,760 | 310,485 |
| <u>\$ 120,431</u> | <u>\$ 35,782</u> | <u>\$ 4,239</u> | <u>\$ -</u> | <u>\$ 54</u> | <u>\$ 885</u> | <u>\$ 309,760</u> | <u>\$ 2,227,699</u> |
| | | | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | 44,041 |
| 1,053 | - | - | - | - | - | - | 22,620 |
| - | - | - | - | - | - | - | 140,250 |
| 1,053 | - | - | - | - | - | - | 206,911 |
| 119,378 | 35,782 | 4,239 | - | 54 | 885 | 309,760 | 2,020,788 |
| <u>\$ 120,431</u> | <u>\$ 35,782</u> | <u>\$ 4,239</u> | <u>\$ -</u> | <u>\$ 54</u> | <u>\$ 885</u> | <u>\$ 309,760</u> | <u>\$ 2,227,699</u> |

City of St. Clair Shores, Michigan

Nonmajor Special Revenue Funds

| | Library State Aid | Library Penal | Court Building | Drug Law Enforcement | Community Development Block Grant | Family Rental Program |
|--|----------------------|-------------------|-------------------|-------------------------|---|--------------------------|
| Revenue | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Federal sources | - | - | - | - | 1,118,078 | - |
| State sources | 45,576 | - | - | - | - | - |
| Interest income | 978 | 2,306 | 24,719 | 22,873 | - | - |
| Other | - | 84,749 | 256,724 | 193,177 | - | 40,411 |
| Total revenue | 46,554 | 87,055 | 281,443 | 216,050 | 1,118,078 | 40,411 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | - | - | 34,587 | - | - | - |
| Public safety | - | - | - | 233,447 | - | - |
| Public works | - | - | - | - | - | - |
| Community and economic development | - | - | - | - | 736,719 | 27,828 |
| Recreation and culture | 22,788 | - | - | - | - | - |
| Debt service: | | | | | | |
| Principal | - | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - | - |
| Total expenditures | 22,788 | - | 34,587 | 233,447 | 736,719 | 27,828 |
| Excess of Revenue Over (Under) | | | | | | |
| Expenditures | 23,766 | 87,055 | 246,856 | (17,397) | 381,359 | 12,583 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | - | - | - | - | - | - |
| Transfers out | (21,000) | (53,000) | (59,000) | - | (381,359) | - |
| Total other financing sources (uses) | (21,000) | (53,000) | (59,000) | - | (381,359) | - |
| Net Change in Fund Balances | 2,766 | 34,055 | 187,856 | (17,397) | - | 12,583 |
| Fund Balances - Beginning of year | 23,417 | 66,366 | 610,241 | 628,915 | - | 1,888 |
| Fund Balances - End of year | \$ 26,183 | \$ 100,421 | \$ 798,097 | \$ 611,518 | \$ - | \$ 14,471 |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

| Nonmajor Debt Service Funds | | | | | | Nonmajor Capital Projects Funds | |
|-----------------------------|-----------------------|-----------------|-------------|--------------|---------------|------------------------------------|---|
| Debt Service | Building Authority | 1989 MVH | 1990 MVH | 1991 MVH | 1994 MVH | Harper Ave. Street Scape | Total Nonmajor Governmental Funds |
| \$ 422,794 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 422,794 |
| - | - | - | - | - | - | - | 1,118,078 |
| - | - | - | - | - | - | - | 45,576 |
| 8,004 | 1,202 | - | - | - | 2 | - | 60,084 |
| - | - | - | - | - | - | - | 575,061 |
| 430,798 | 1,202 | - | - | - | 2 | - | 2,221,593 |
| - | - | - | - | - | - | - | 34,587 |
| - | - | - | - | - | - | - | 233,447 |
| 415,862 | - | - | - | - | - | - | 415,862 |
| - | - | - | - | - | - | - | 764,547 |
| - | - | - | - | - | - | - | 22,788 |
| 6,933 | 105,000 | - | 200,000 | 255,000 | 345,000 | - | 911,933 |
| 1,506 | 43,180 | - | 10,000 | 9,990 | 138,858 | - | 203,534 |
| 424,301 | 148,180 | - | 210,000 | 264,990 | 483,858 | - | 2,586,698 |
| 6,497 | (146,978) | - | (210,000) | (264,990) | (483,856) | - | (365,105) |
| - | 148,180 | - | 210,000 | 264,990 | 483,858 | 309,760 | 1,416,788 |
| - | - | - | - | - | - | - | (514,359) |
| - | 148,180 | - | 210,000 | 264,990 | 483,858 | 309,760 | 902,429 |
| 6,497 | 1,202 | - | - | - | 2 | 309,760 | 537,324 |
| 112,881 | 34,580 | 4,239 | - | 54 | 883 | - | 1,483,464 |
| \$ 119,378 | \$ 35,782 | \$ 4,239 | \$ - | \$ 54 | \$ 885 | \$ 309,760 | \$ 2,020,788 |

City of St. Clair Shores, Michigan

| Special Revenue Funds | | | | | | |
|--|------------------|-------------------------------|---------------|------------------|----------------------------------|------------------|
| Library State Aid | | | Library Penal | | | |
| Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget | |
| Revenue | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Federal sources | - | - | - | - | - | - |
| State sources | 47,000 | 45,576 | (1,424) | 55,000 | - | (55,000) |
| Interest income | 100 | 978 | 878 | 100 | 2,306 | 2,206 |
| Other | - | - | - | - | 84,749 | 84,749 |
| Transfers in | - | - | - | - | - | - |
| Total revenue | 47,100 | 46,554 | (546) | 55,100 | 87,055 | 31,955 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | - | - | - |
| Public works department | - | - | - | - | - | - |
| Community and economic development | - | - | - | - | - | - |
| Recreation and culture | 23,500 | 22,788 | 712 | - | - | - |
| Debt service: | | | | | | |
| Principal | - | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - | - |
| Transfers out | 21,000 | 21,000 | - | 53,000 | 53,000 | - |
| Total expenditures | 44,500 | 43,788 | 712 | 53,000 | 53,000 | - |
| Excess of Revenue Over (Under) | | | | | | |
| Expenditures | 2,600 | 2,766 | 166 | 2,100 | 34,055 | 31,955 |
| Fund Balances - Beginning of year | 23,417 | 23,417 | - | 66,366 | 66,366 | - |
| Fund Balances - End of year | \$ 26,017 | \$ 26,183 | \$ 166 | \$ 68,466 | \$ 100,421 | \$ 31,955 |

Other Supplemental Information
Budgetary Comparison Schedule - Nonmajor Governmental Funds
(Continued on subsequent pages)
Year Ended June 30, 2006

| Special Revenue Funds | | | | | | | | |
|-----------------------|-------------------|----------------------------|----------------------|-------------------|----------------------------|-----------------------------------|-------------|----------------------------|
| Court Building | | | Drug Law Enforcement | | | Community Development Block Grant | | |
| Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | 2,432,508 | 1,118,078 | (1,314,430) |
| - | - | - | - | - | - | - | - | - |
| 22,500 | 24,719 | 2,219 | 21,000 | 22,873 | 1,873 | - | - | - |
| 205,600 | 256,724 | 51,124 | 183,300 | 193,177 | 9,877 | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 228,100 | 281,443 | 53,343 | 204,300 | 216,050 | 11,750 | 2,432,508 | 1,118,078 | (1,314,430) |
| 22,330 | 34,587 | (12,257) | - | - | - | - | - | - |
| - | - | - | 188,330 | 233,447 | (45,117) | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 1,793,439 | 736,720 | 1,056,719 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 59,000 | 59,000 | - | - | - | - | 639,069 | 381,358 | 257,711 |
| 81,330 | 93,587 | (12,257) | 188,330 | 233,447 | (45,117) | 2,432,508 | 1,118,078 | 1,314,430 |
| 146,770 | 187,856 | 41,086 | 15,970 | (17,397) | (33,367) | - | - | - |
| 610,241 | 610,241 | - | 628,915 | 628,915 | - | - | - | - |
| \$ 757,011 | \$ 798,097 | \$ 41,086 | \$ 644,885 | \$ 611,518 | \$ (33,367) | \$ - | \$ - | \$ - |

City of St. Clair Shores, Michigan

| | Special Revenue Funds | | | Debt Service Funds | | |
|--|-----------------------|------------------|----------------------------------|--------------------|-------------------|----------------------------------|
| | Family Rental Program | | | Debt Service | | |
| | Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget |
| Revenue | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ 422,913 | \$ 422,794 | \$ (119) |
| Federal sources | - | - | - | - | - | - |
| State sources | - | - | - | - | - | - |
| Interest income | - | - | - | - | 8,004 | 8,004 |
| Other | 25,000 | 40,411 | 15,411 | - | - | - |
| Transfers in | - | - | - | - | - | - |
| Total revenue | 25,000 | 40,411 | 15,411 | 422,913 | 430,798 | 7,885 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | - | - | - |
| Public works department | - | - | - | 414,409 | 415,862 | (1,453) |
| Community and economic development | 21,000 | 27,828 | (6,828) | - | - | - |
| Recreation and culture | - | - | - | - | - | - |
| Debt service: | | | | | | |
| Principal | - | - | - | 6,933 | 6,933 | - |
| Interest and fiscal charges | - | - | - | 1,506 | 1,506 | - |
| Transfers out | - | - | - | - | - | - |
| Total expenditures | 21,000 | 27,828 | (6,828) | 422,848 | 424,301 | (1,453) |
| Excess of Revenue Over (Under) | | | | | | |
| Expenditures | 4,000 | 12,583 | 8,583 | 65 | 6,497 | 6,432 |
| Fund Balances - Beginning of year | 1,888 | 1,888 | - | 112,881 | 112,881 | - |
| Fund Balances - End of year | \$ 5,888 | \$ 14,471 | \$ 8,583 | \$ 112,946 | \$ 119,378 | \$ 6,432 |

Other Supplemental Information
Budgetary Comparison Schedule
Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2006

| Debt Service Funds | | | | | |
|--------------------|------------------|----------------------------------|-----------------|-----------------|----------------------------------|
| Building Authority | | | 1989 MVH | | |
| Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | 1,202 | 1,202 | - | - | - |
| - | - | - | - | - | - |
| 148,780 | 148,180 | (600) | - | - | - |
| 148,780 | 149,382 | 602 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 105,000 | 105,000 | - | - | - | - |
| 43,780 | 43,180 | 600 | - | - | - |
| - | - | - | - | - | - |
| 148,780 | 148,180 | 600 | - | - | - |
| - | - | - | - | - | - |
| - | 1,202 | 1,202 | - | - | - |
| 34,580 | 34,580 | - | 4,239 | 4,239 | - |
| \$ 34,580 | \$ 35,782 | \$ 1,202 | \$ 4,239 | \$ 4,239 | \$ - |

City of St. Clair Shores, Michigan

| | Debt Service Funds | | | | | |
|--|--------------------|---------|-------------------------------|--------------|---------|----------------------------------|
| | 1990 MVH | | | 1991 MVH | | |
| | Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget |
| Revenue | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest income | - | - | - | - | - | - |
| Transfers in | 210,500 | 210,000 | 500 | 265,190 | 264,990 | (200) |
| Total revenue | 210,500 | 210,000 | 500 | 265,190 | 264,990 | (200) |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | - | - | - |
| Public works department | - | - | - | - | - | - |
| Community and economic development | - | - | - | - | - | - |
| Recreation and culture | - | - | - | - | - | - |
| Debt service: | | | | | | |
| Principal | 200,000 | 200,000 | - | 255,000 | 255,000 | - |
| Interest and fiscal charges | 10,500 | 10,000 | 500 | 10,190 | 9,990 | 200 |
| Transfers out | - | - | - | - | - | - |
| Total expenditures | 210,500 | 210,000 | 500 | 265,190 | 264,990 | 200 |
| Excess of Revenue Over (Under) | | | | | | |
| Expenditures | - | - | - | - | - | - |
| Fund Balances - Beginning of year | - | - | - | 54 | 54 | - |
| Fund Balances - End of year | \$ - | \$ - | \$ - | \$ 54 | \$ 54 | \$ - |

**Other Supplemental Information
Budgetary Comparison Schedule
Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2006**

| Debt Service Funds | | | | | |
|----------------------|----------------------|----------------------------------|------------------------------|----------------------------|-------------------------------|
| 1994 MVH | | | SEMSD Clean Water Initiative | | |
| Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget |
| \$ - | \$ - | \$ - | \$ 3,674,313 | \$ 3,674,519 | \$ 206 |
| - | 2 | 2 | - | 138,388 | 138,388 |
| <u>483,858</u> | <u>483,858</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 483,858 | 483,860 | 2 | 3,674,313 | 3,812,907 | 138,594 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 345,000 | 345,000 | - | 1,902,257 | 1,651,445 | 250,812 |
| 138,858 | 138,858 | - | 1,876,324 | 1,926,730 | (50,406) |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>513,796</u> | <u>(513,796)</u> |
| <u>483,858</u> | <u>483,858</u> | <u>-</u> | <u>3,778,581</u> | <u>4,091,971</u> | <u>(313,390)</u> |
| - | 2 | 2 | (104,268) | (279,064) | (174,796) |
| <u>883</u> | <u>883</u> | <u>-</u> | <u>3,230,116</u> | <u>3,230,116</u> | <u>-</u> |
| <u>\$ 883</u> | <u>\$ 885</u> | <u>\$ 2</u> | <u>\$ 3,125,848</u> | <u>\$ 2,951,052</u> | <u>\$ (174,796)</u> |

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2006

| | Motor Pool | Computer Replacement | Total |
|--|---------------------|----------------------|---------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,894,448 | \$ 104,844 | \$ 1,999,292 |
| Receivables - Other | 1,114 | - | 1,114 |
| Due from other funds | 13,302 | 936 | 14,238 |
| Total current assets | 1,908,864 | 105,780 | 2,014,644 |
| Noncurrent assets - Capital assets - Net | 3,285,724 | 229,627 | 3,515,351 |
| Total assets | 5,194,588 | 335,407 | 5,529,995 |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 23,926 | 17,594 | 41,520 |
| Accrued and other liabilities | 120,746 | - | 120,746 |
| Current portion of long-term debt | 5,924 | - | 5,924 |
| Total current liabilities | 150,596 | 17,594 | 168,190 |
| Noncurrent liabilities - Long-term debt - Net of current portion | 19,141 | - | 19,141 |
| Total liabilities | 169,737 | 17,594 | 187,331 |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | 3,285,724 | 229,627 | 3,515,351 |
| Unrestricted | 1,739,127 | 88,186 | 1,827,313 |
| Total net assets | <u>\$ 5,024,851</u> | <u>\$ 317,813</u> | <u>\$ 5,342,664</u> |

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets - Internal Service Funds Year Ended June 30, 2006

| | Motor Pool | Computer Replacement | Total |
|---------------------------------------|---------------------|----------------------|---------------------|
| Operating Revenue | | | |
| Charges for services | \$ 1,518,381 | \$ - | \$ 1,518,381 |
| Other | 68,979 | 164,769 | 233,748 |
| Total operating revenue | 1,587,360 | 164,769 | 1,752,129 |
| Operating Expenses | | | |
| Salaries and fringe benefits | 239,799 | - | 239,799 |
| Administrative charge | 512,437 | - | 512,437 |
| Depreciation and amortization | 683,012 | 37,381 | 720,393 |
| Supplies | 339,429 | - | 339,429 |
| Other | 10,949 | 86,308 | 97,257 |
| Total operating expenses | 1,785,626 | 123,689 | 1,909,315 |
| Operating Income (Loss) | (198,266) | 41,080 | (157,186) |
| Nonoperating Revenue | | | |
| Interest income | 54,222 | 7,269 | 61,491 |
| Gain on disposal of capital assets | 10,285 | - | 10,285 |
| Total nonoperating revenue | 64,507 | 7,269 | 71,776 |
| Net Change in Net Assets | (133,759) | 48,349 | (85,410) |
| Net Assets - Beginning of year | 5,158,610 | 269,464 | 5,428,074 |
| Net Assets - End of year | <u>\$ 5,024,851</u> | <u>\$ 317,813</u> | <u>\$ 5,342,664</u> |

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2006

| | Motor Pool | Computer Replacement | Total |
|---|---------------------|-------------------------|---------------------|
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 1,587,361 | \$ 164,769 | \$ 1,752,130 |
| Payments to suppliers | (877,647) | (69,308) | (946,955) |
| Payments to employees | (228,019) | - | (228,019) |
| Internal activity - Payments to other funds | (20,066) | - | (20,066) |
| Other receipts (payments) | 96,690 | (935) | 95,755 |
| Net cash provided by operating activities | 558,319 | 94,526 | 652,845 |
| Cash Flows from Capital and Related Financing Activities | | | |
| Purchase of capital assets | (482,345) | (179,623) | (661,968) |
| Proceeds from sale of capital assets | 22,542 | - | 22,542 |
| Net cash used in capital and related financing activities | (459,803) | (179,623) | (639,426) |
| Cash Flows from Investing Activities - Interest received on investments | 54,222 | 7,269 | 61,491 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 152,738 | (77,828) | 74,910 |
| Cash and Cash Equivalents - Beginning of year | 1,741,710 | 182,672 | 1,924,382 |
| Cash and Cash Equivalents - End of year | <u>\$ 1,894,448</u> | <u>\$ 104,844</u> | <u>\$ 1,999,292</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | |
| Operating income (loss) | \$ (198,266) | \$ 41,080 | \$ (157,186) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | |
| Depreciation and amortization | 683,012 | 37,381 | 720,393 |
| Changes in assets and liabilities: | | | |
| Receivables | 3,452 | - | 3,452 |
| Due from other funds | 87,463 | - | 87,463 |
| Due from other governmental funds | - | (936) | (936) |
| Accounts payable | (14,831) | 17,001 | 2,170 |
| Accrued and other liabilities | 14,367 | - | 14,367 |
| Due to other funds | (6,764) | - | (6,764) |
| Due to other governmental funds | (7,527) | - | (7,527) |
| Compensated absences | (2,587) | - | (2,587) |
| Net cash provided by operating activities | <u>\$ 558,319</u> | <u>\$ 94,526</u> | <u>\$ 652,845</u> |

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Pension and Other Employee Benefit Trust Funds Fiduciary Funds June 30, 2006

| | General Employees' Retirement System | Police and Fire Retirement System | Police and Fire Retiree Health Care Fund | Total |
|--|---|---|--|---------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 515,814 | \$ 570,523 | \$ 82,458 | \$ 1,168,795 |
| Investments: | | | | |
| Corporate bonds and notes | 5,918,122 | 13,294,992 | 190,852 | 19,403,966 |
| U.S. government securities | 4,531,668 | 14,542,919 | 418,966 | 19,493,553 |
| Common and preferred stock | 24,224,158 | 47,697,546 | - | 71,921,704 |
| Mutual funds | 879,809 | 1,966,954 | 1,289,201 | 4,135,964 |
| Investments held by broker-dealer and banks under securities loans: | | | | |
| U.S. government securities | 1,900,107 | 4,367,992 | - | 6,268,099 |
| Corporate bonds and notes | 163,061 | 1,246,319 | - | 1,409,380 |
| Common and preferred stock | 4,622,871 | 14,345,047 | - | 18,967,918 |
| Securities lending short-term collateral bank investment pool | 6,863,884 | 20,487,022 | - | 27,350,906 |
| Accrued interest receivable | 139,567 | 370,218 | 5,431 | 515,216 |
| Total assets | 49,759,061 | 118,889,532 | 1,986,908 | 170,635,501 |
| Liabilities - Amounts due to broker under securities lending agreement | 6,863,884 | 20,487,022 | - | 27,350,906 |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 42,895,177</u> | <u>\$ 98,402,510</u> | <u>\$ 1,986,908</u> | <u>\$ 143,284,595</u> |

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Fiduciary Funds Year Ended June 30, 2006

| | General Employees' Retirement System | Police and Fire Retirement System | Police and Fire Retiree Health Care | Total |
|---|---|---|---|------------------------------|
| Additions | | | | |
| Investment income: | | | | |
| Interest and dividends | \$ 1,371,087 | \$ 3,201,962 | \$ 158,372 | \$ 4,731,421 |
| Net increase in fair value of investments | 1,380,278 | 5,622,293 | - | 7,002,571 |
| Less investment expenses | <u>(258,941)</u> | <u>(524,388)</u> | <u>(21,193)</u> | <u>(804,522)</u> |
| Net investment income | 2,492,424 | 8,299,867 | 137,179 | 10,929,470 |
| Securities lending income: | | | | |
| Interest and fees | 201,664 | 692,060 | - | 893,724 |
| Less borrower rebates and bank fees | <u>(191,931)</u> | <u>(653,181)</u> | <u>-</u> | <u>(845,112)</u> |
| Net securities lending income | 9,733 | 38,879 | - | 48,612 |
| Contributions: | | | | |
| Employer | 1,809,655 | 2,321,893 | 250,000 | 4,381,548 |
| Employee | <u>27,769</u> | <u>479,130</u> | <u>-</u> | <u>506,899</u> |
| Total contributions | <u>1,837,424</u> | <u>2,801,023</u> | <u>250,000</u> | <u>4,888,447</u> |
| Total additions | 4,339,581 | 11,139,769 | 387,179 | 15,866,529 |
| Deductions | | | | |
| Benefit payments | 3,809,284 | 6,333,492 | - | 10,142,776 |
| Refunds of contributions | - | 4,911 | - | 4,911 |
| Administrative expenses | <u>25,286</u> | <u>24,830</u> | <u>-</u> | <u>50,116</u> |
| Total deductions | <u>3,834,570</u> | <u>6,363,233</u> | <u>-</u> | <u>10,197,803</u> |
| Net Increase | 505,011 | 4,776,536 | 387,179 | 5,668,726 |
| Net Assets Held in Trust for Pension and Other Employee Benefits | | | | |
| Beginning of year | <u>42,390,166</u> | <u>93,625,974</u> | <u>1,599,729</u> | <u>137,615,869</u> |
| End of year | <u>\$ 42,895,177</u> | <u>\$ 98,402,510</u> | <u>\$ 1,986,908</u> | <u>\$ 143,284,595</u> |

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Agency Funds Fiduciary Funds June 30, 2006

| | Agency Funds | | | |
|---|--------------------------|-------------------------------|--------------------------|--------------------------|
| | County and School Tax | Water Feasibility Study | General Agency | Total |
| Assets - Cash and cash equivalents | <u>\$ 28,713</u> | <u>\$ -</u> | <u>\$ 228,494</u> | <u>\$ 257,207</u> |
| Liabilities | | | | |
| Accrued and other liabilities | \$ - | \$ - | \$ 153,547 | \$ 153,547 |
| Due to other governmental units | <u>28,713</u> | <u>-</u> | <u>74,947</u> | <u>103,660</u> |
| Total liabilities | <u>\$ 28,713</u> | <u>\$ -</u> | <u>\$ 228,494</u> | <u>\$ 257,207</u> |

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Changes in Assets and Liabilities - Agency Funds Fiduciary Funds Year Ended June 30, 2006

| | Balance July 1, 2005 | Additions | Deductions | Balance June 30, 2006 |
|--|-------------------------|----------------------|----------------------|--------------------------|
| <u>County and School Tax Fund</u> | | | | |
| Assets - Cash and cash equivalents | <u>\$ 27,467</u> | <u>\$ 75,463,566</u> | <u>\$ 75,462,320</u> | <u>\$ 28,713</u> |
| Liabilities - Due to other governmental units | <u>\$ 27,467</u> | <u>\$ 75,463,566</u> | <u>\$ 75,462,320</u> | <u>\$ 28,713</u> |
| <u>Water Feasibility Study Fund</u> | | | | |
| Assets - Cash and cash equivalents | <u>\$ 81,509</u> | <u>\$ 503</u> | <u>\$ 82,012</u> | <u>\$ -</u> |
| Liabilities | | | | |
| Accrued and other liabilities | \$ 9,002 | \$ 79,511 | \$ 88,513 | \$ - |
| Due to other governmental units | <u>72,507</u> | <u>-</u> | <u>72,507</u> | <u>-</u> |
| Total liabilities | <u>\$ 81,509</u> | <u>\$ 79,511</u> | <u>\$ 161,020</u> | <u>\$ -</u> |
| <u>General Agency Fund</u> | | | | |
| Assets - Cash and cash equivalents | <u>\$ 256,663</u> | <u>\$ 3,745,794</u> | <u>\$ 3,773,963</u> | <u>\$ 228,494</u> |
| Liabilities | | | | |
| Accrued and other liabilities | \$ 179,036 | \$ 1,445,320 | \$ 1,470,809 | \$ 153,547 |
| Due to other governmental units | <u>77,627</u> | <u>2,372,140</u> | <u>2,374,820</u> | <u>74,947</u> |
| Total liabilities | <u>\$ 256,663</u> | <u>\$ 3,817,460</u> | <u>\$ 3,845,629</u> | <u>\$ 228,494</u> |
| <u>Total - All Agency Funds</u> | | | | |
| Assets - Cash and cash equivalents | <u>\$ 365,639</u> | <u>\$ 79,209,863</u> | <u>\$ 79,318,295</u> | <u>\$ 257,207</u> |
| Liabilities | | | | |
| Accrued and other liabilities | 188,038 | 1,524,831 | 1,559,322 | 153,547 |
| Due to other governmental units | <u>177,601</u> | <u>77,835,706</u> | <u>77,909,647</u> | <u>103,660</u> |
| Total liabilities | <u>\$ 365,639</u> | <u>\$ 79,360,537</u> | <u>\$ 79,468,969</u> | <u>\$ 257,207</u> |

City of St. Clair Shores, Michigan

Statistical Section Contents

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trend Information

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

| | |
|---|-------|
| Change in Net Assets - Governmental Activities | 91 |
| Change in Net Assets - Business-type Activities | 92 |
| Change in Fund Balance - Governmental Funds | 93-94 |
| Governmental Fund Balance Designations | 95-96 |
| Government-wide Net Assets by Component | 97 |

Revenue Capacity Information

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax. The following schedules reflecting revenue capacity information have been presented as part of the continuing disclosure items:

Property Tax Rates - Direct and Overlapping Government
Property Tax Levy and Collections
Principal Taxpayers

| | |
|--|-------|
| Taxable Value and Actual Value of Taxable Property | 98-99 |
|--|-------|

Debt Capacity Information

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. The computation of legal debt margin schedule, which includes debt capacity information, has been presented as part of the continuing disclosure items.

| | |
|--|---------|
| Pledged Revenue Coverage | 100-101 |
| Ratio of Outstanding Debt | 102-103 |
| Ratio of General Bonded Debt Outstanding | 104-105 |
| Computation of Direct and Overlapping Debt | 106 |

City of St. Clair Shores, Michigan

Statistical Section Contents (Continued)

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place. The principal employers schedule, which includes demographic and economic information, has been presented as part of the continuing disclosure items.

| | |
|-------------------------------------|-----|
| Demographic and Economic Statistics | 107 |
|-------------------------------------|-----|

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

| | |
|---|---------|
| Full-time Equivalent Government Employees | 108-109 |
| Operating Indicators | 110-115 |
| Capital Asset Statistics | 116-117 |

City of St. Clair Shores, Michigan

Change in Net Assets - Governmental Activities Last Four Fiscal Years

| | Year Ended June 30 | | | |
|---|----------------------|---------------------|---------------------|----------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Expenses | | | | |
| General government | \$ 10,828,260 | \$ 10,007,516 | \$ 10,113,712 | \$ 9,812,033 |
| Public safety | 17,445,205 | 16,210,759 | 14,893,061 | 13,891,907 |
| Public works | 10,722,110 | 9,322,623 | 9,664,287 | 8,363,631 |
| Community and economic development | 1,306,292 | 1,658,320 | 2,016,726 | 1,316,485 |
| Recreation and culture | 6,699,876 | 6,525,861 | 6,311,869 | 6,119,056 |
| Interest on long-term debt | 1,610,333 | 2,170,937 | 1,657,275 | 1,892,113 |
| Total governmental activities | 48,612,076 | 45,896,016 | 44,656,930 | 41,395,225 |
| Program Revenues | | | | |
| Charges for services | | | | |
| General government | 2,113,145 | 2,044,894 | 1,878,715 | 1,699,076 |
| Public safety | 1,901,412 | 2,005,409 | 2,027,282 | 1,599,407 |
| Public works | 516,875 | 443,775 | 385,658 | 673,884 |
| Community and economic development | 522,988 | 498,743 | 495,442 | 34,264 |
| Recreation and culture | 3,262,167 | 3,246,565 | 3,348,600 | 3,323,534 |
| Total charges for services | 8,316,587 | 8,239,386 | 8,135,697 | 7,330,165 |
| Operating Grants and Contributions | 8,804,915 | 5,123,863 | 5,714,200 | 6,101,823 |
| Capital Grants and Contributions | 1,505,949 | 4,156,805 | 4,064,822 | 11,833,415 |
| Total program revenue | 18,627,451 | 17,520,054 | 17,914,719 | 25,265,403 |
| Net Expense | (29,984,625) | (28,375,962) | (26,742,211) | (16,129,822) |
| General Revenues | | | | |
| Property taxes | 31,194,126 | 26,356,518 | 24,893,825 | 23,394,860 |
| State-shared revenues | 5,818,277 | 5,890,777 | 5,954,665 | 6,537,837 |
| Investment earnings | 2,820,653 | 604,229 | 303,877 | 353,032 |
| Cable franchise fees | 727,726 | 708,795 | 671,771 | 635,901 |
| Bond refundings | - | - | - | 4,750,000 |
| Gain (loss) on sale of assets | 83,826 | 189 | - | (9,300) |
| Miscellaneous | 1,375,096 | 481,439 | 358,377 | 663,635 |
| Total general revenues | 42,019,704 | 34,041,947 | 32,182,515 | 36,325,965 |
| Transfers | 58,000 | 74,420 | (22,598) | 53,046 |
| Change in Net Assets | <u>\$ 12,093,079</u> | <u>\$ 5,740,405</u> | <u>\$ 5,417,706</u> | <u>\$ 20,249,189</u> |

City of St. Clair Shores, Michigan

Change in Net Assets - Business-type Activities Last Four Fiscal Years

| | Year Ended June 30 | | | |
|---|---------------------|------------------|---------------------|-------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Operating Revenue | | | | |
| Customer fees | \$ 14,110,958 | \$ 12,630,194 | \$ 13,459,585 | \$ 12,414,733 |
| Tap fees | 102,327 | 71,986 | 65,020 | 69,336 |
| Other | 161,152 | 145,984 | 58,205 | 242,628 |
| Total operating revenue | 14,374,437 | 12,848,164 | 13,582,810 | 12,726,697 |
| Operating Expenses | | | | |
| Water purchases | 2,155,948 | 2,519,293 | 2,095,196 | 2,101,577 |
| Sewage disposal charges | 5,397,582 | 6,328,438 | 5,649,509 | 4,011,561 |
| Salaries and fringe benefits | 1,856,479 | 1,915,090 | 2,022,303 | 2,078,804 |
| Administrative charge | 761,665 | 775,377 | 1,298,686 | 1,336,839 |
| Repairs and maintenance | 1,576,016 | 1,504,379 | 1,139,520 | 1,131,943 |
| Depreciation | 1,014,816 | 753,617 | 763,907 | 785,748 |
| Supplies | 58,137 | 56,475 | 50,591 | 49,407 |
| Other | 738,955 | 652,977 | 590,530 | 1,980,970 |
| Total operating expenses | 13,559,598 | 14,505,646 | 13,610,242 | 13,476,849 |
| Operating Income (Loss) | 814,839 | (1,657,482) | (27,432) | (750,152) |
| Nonoperating Revenue (Expenses) | | | | |
| Property taxes | 1,760,731 | 1,706,740 | 1,580,592 | 1,550,474 |
| Investment income | 280,866 | 162,060 | 74,343 | 86,283 |
| Interest expense | (65,491) | (80,091) | (120,599) | (141,657) |
| Federal grants | - | 7,914 | 21,374 | - |
| Income - Before contributions and other items | 1,976,106 | 1,796,623 | 1,555,710 | 1,495,100 |
| Capital Contributions | - | - | - | 76,800 |
| Capital Grants | 63,001 | 17,246 | 251,175 | 114,305 |
| Total capital contributions | 63,001 | 17,246 | 251,175 | 191,105 |
| Transfers from Other Funds | - | - | 75,644 | - |
| Transfers to Other Funds | (58,000) | (74,420) | (53,046) | (53,046) |
| Change in Net Assets | <u>\$ 2,795,946</u> | <u>\$ 81,967</u> | <u>\$ 1,802,051</u> | <u>\$ 883,007</u> |

City of St. Clair Shores, Michigan

| | Year Ended | | |
|--|----------------------|----------------------|----------------------|
| | 2006 | 2005 | 2004 |
| Revenue | | | |
| Property taxes | \$ 31,610,755 | \$ 26,216,797 | \$ 24,830,902 |
| Licenses and permits | 1,429,410 | 1,400,042 | 1,332,299 |
| Federal grants | 4,801,939 | 1,070,467 | 810,681 |
| State-shared revenues (and grants) | 9,852,997 | 9,941,755 | 10,870,076 |
| Charges for services | 3,581,274 | 3,559,584 | 3,958,426 |
| Fines and forfeitures | 2,014,115 | 2,096,828 | 1,860,677 |
| Investment Income | 2,758,482 | 572,690 | 293,486 |
| Other | 2,212,046 | 2,245,723 | 1,107,361 |
| Total revenue | 58,261,018 | 47,103,886 | 45,063,908 |
| Expenditures | | | |
| Current: | | | |
| General government | 10,813,706 | 9,747,056 | 10,136,632 |
| Public safety | 17,410,562 | 16,016,638 | 14,169,232 |
| Public works | 16,767,625 | 12,597,379 | 11,049,322 |
| Community and economic development | 1,295,692 | 1,539,660 | 2,004,973 |
| Recreation and culture | 4,611,104 | 4,534,909 | 4,394,431 |
| Debt service principal | 2,563,378 | 2,128,282 | 2,132,057 |
| Debt service interest | 2,131,669 | 2,028,811 | 1,333,430 |
| Total expenditures | 55,593,736 | 48,592,735 | 45,220,077 |
| Excess of Revenue Over (Under) Expenditures | 2,667,282 | (1,488,849) | (156,169) |
| Other Financing Sources (Uses) | | | |
| Debt issuance | 16,023,220 | 1,699,146 | 1,097,702 |
| Transfers in | 3,961,860 | 4,561,746 | 6,001,429 |
| Transfers out | (4,098,022) | (5,021,423) | (6,391,027) |
| Debt defeasance | - | - | - |
| Total other financing sources (uses) | 15,887,058 | 1,239,469 | 708,104 |
| Net Change in Fund Balances | 18,554,340 | (249,380) | 551,935 |
| Fund Balances - Beginning of year | 18,192,996 | 18,442,376 | 17,890,441 |
| Fund Balances - End of year | <u>\$ 36,747,336</u> | <u>\$ 18,192,996</u> | <u>\$ 18,442,376</u> |

**Change in Fund Balance
Governmental Funds
Last Ten Fiscal Years**

June 30

| 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 23,351,664 | \$ 21,821,038 | \$ 21,232,974 | \$ 17,920,891 | \$ 18,233,589 | \$ 17,625,497 | \$ 17,074,882 |
| 1,288,073 | 1,388,953 | 1,279,146 | 1,296,098 | 1,259,482 | 1,011,749 | 1,085,728 |
| 4,533,774 | 1,249,583 | 1,249,409 | 834,033 | 2,380,736 | 1,341,571 | 882,351 |
| 10,615,651 | 10,861,402 | 11,481,170 | 11,285,593 | 10,820,165 | 10,423,765 | 9,652,107 |
| 3,941,713 | 3,526,016 | 3,118,675 | 2,914,756 | 2,383,018 | 2,311,455 | 2,090,656 |
| 1,732,976 | 1,837,754 | 1,917,089 | 2,144,747 | 1,742,737 | 1,710,451 | 1,685,021 |
| 343,326 | 697,256 | 1,012,646 | 1,027,385 | 940,574 | 982,673 | 973,702 |
| 1,205,771 | 830,481 | 789,040 | 737,596 | 775,182 | 1,164,577 | 1,115,180 |
| 47,012,948 | 42,212,483 | 42,080,149 | 38,161,099 | 38,535,483 | 36,571,738 | 34,559,627 |
| 9,560,094 | 8,803,545 | 8,091,139 | 8,926,044 | 8,780,192 | 7,871,869 | 6,880,824 |
| 13,613,575 | 13,994,050 | 13,606,540 | 12,974,387 | 13,575,574 | 13,670,747 | 12,805,840 |
| 14,590,182 | 34,430,425 | 12,858,054 | 7,067,639 | 7,441,658 | 6,245,274 | 8,531,662 |
| 2,121,350 | 3,230,271 | 3,426,481 | 2,708,492 | 4,212,106 | 2,635,171 | 1,843,666 |
| 4,522,684 | 4,844,980 | 4,548,841 | 4,374,351 | 4,394,925 | 4,842,104 | 3,808,650 |
| 1,179,447 | 931,993 | 837,293 | 799,101 | 985,749 | 1,569,247 | 1,340,944 |
| 1,834,736 | 1,670,646 | 426,249 | 469,832 | 563,143 | 642,634 | 672,030 |
| 47,422,068 | 67,905,910 | 43,794,597 | 37,319,846 | 39,953,347 | 37,477,046 | 35,883,616 |
| (409,120) | (25,693,427) | (1,714,448) | 841,253 | (1,417,864) | (905,308) | (1,323,989) |
| 4,062,474 | 30,466,320 | 2,777,107 | - | 2,085,943 | 1,500,000 | 541,144 |
| 5,287,746 | 4,610,625 | 5,383,382 | 3,687,908 | 3,286,542 | 2,557,391 | 2,781,633 |
| (5,743,150) | (4,900,625) | (5,330,264) | (4,027,908) | (4,310,042) | (2,557,391) | (3,062,813) |
| - | (2,976,990) | - | - | (1,540,200) | - | (541,144) |
| 3,607,070 | 27,199,330 | 2,830,225 | (340,000) | (477,757) | 1,500,000 | (281,180) |
| 3,197,950 | 1,505,903 | 1,115,777 | 501,253 | (1,895,621) | 594,692 | (1,605,169) |
| 14,692,491 | 13,186,588 | 12,070,811 | 11,569,558 | 13,465,179 | 12,870,487 | 14,475,656 |
| \$ 17,890,441 | \$ 14,692,491 | \$ 13,186,588 | \$ 12,070,811 | \$ 11,569,558 | \$ 13,465,179 | \$ 12,870,487 |

City of St. Clair Shores, Michigan

| | Year Ended | | | | |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| General Fund: | | | | | |
| Reserved | \$ 5,965,913 | \$ 5,409,134 | \$ 4,849,616 | \$ 3,840,141 | \$ 4,496,463 |
| Unreserved | <u>11,679,907</u> | <u>6,936,977</u> | <u>6,701,999</u> | <u>6,720,658</u> | <u>5,779,624</u> |
| Total General Fund | <u>\$ 17,645,820</u> | <u>\$ 12,346,111</u> | <u>\$ 11,551,615</u> | <u>\$ 10,560,799</u> | <u>\$ 10,276,087</u> |
| All other governmental funds: | | | | | |
| Reserved | \$ 13,471,341 | \$ 289,206 | \$ 614,254 | \$ - | \$ - |
| Unreserved, reported in: | | | | | |
| Special Revenue Funds | 2,209,025 | 2,174,926 | 2,578,055 | 1,590,074 | 848,438 |
| Capital Project Funds | 309,760 | - | 408,432 | 1,224,706 | 1,843,495 |
| Debt Service Funds | <u>3,111,390</u> | <u>3,382,753</u> | <u>3,290,020</u> | <u>4,514,862</u> | <u>1,724,471</u> |
| Total all other governmental funds | <u>\$ 19,101,516</u> | <u>\$ 5,846,885</u> | <u>\$ 6,890,761</u> | <u>\$ 7,329,642</u> | <u>\$ 4,416,404</u> |

**Governmental Fund Balance Designations
Last Ten Fiscal Years**

June 30

| 2001 | 2000 | 1999 | 1998 | 1997 |
|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| \$ 4,215,427 | \$ 3,752,023 | \$ 3,178,185 | \$ 2,796,489 | \$ 2,608,085 |
| <u>6,220,532</u> | <u>5,683,990</u> | <u>4,940,657</u> | <u>6,386,033</u> | <u>7,019,195</u> |
| <u>\$ 10,435,959</u> | <u>\$ 9,436,013</u> | <u>\$ 8,118,842</u> | <u>\$ 9,182,522</u> | <u>\$ 9,627,280</u> |
| | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| | | | | |
| 1,283,754 | 1,768,088 | 1,012,835 | 933,354 | 67,298 |
| 614,381 | 582,826 | 2,163,324 | 2,795,443 | 2,587,520 |
| <u>852,494</u> | <u>283,884</u> | <u>274,557</u> | <u>553,860</u> | <u>588,389</u> |
| | | | | |
| <u>\$ 2,750,629</u> | <u>\$ 2,634,798</u> | <u>\$ 3,450,716</u> | <u>\$ 4,282,657</u> | <u>\$ 3,243,207</u> |

City of St. Clair Shores, Michigan

Government-wide Net Assets by Component Last Four Fiscal Years

| | Year Ended June 30 | | | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Governmental Activities | | | | |
| Invested in capital assets, net of related debt | \$ 85,490,733 | \$ 91,266,510 | \$ 87,691,385 | \$ 80,960,146 |
| Restricted | 24,596,879 | 10,928,070 | 10,922,405 | 12,861,725 |
| Unrestricted | 10,265,038 | 6,064,991 | 3,905,376 | 3,279,589 |
| Total net assets | <u>\$ 120,352,650</u> | <u>\$ 108,259,571</u> | <u>\$ 102,519,166</u> | <u>\$ 97,101,460</u> |
| Business-type Activities | | | | |
| Invested in capital assets, net of related debt | \$ 22,121,451 | \$ 20,561,223 | \$ 20,817,968 | \$ 20,040,559 |
| Restricted | 1,399,865 | 1,247,015 | 1,238,993 | 7,931,153 |
| Unrestricted | 15,340,439 | 14,257,571 | 13,926,881 | 6,210,079 |
| Total net assets | <u>\$ 38,861,755</u> | <u>\$ 36,065,809</u> | <u>\$ 35,983,842</u> | <u>\$ 34,181,791</u> |
| Primary Government in Total | | | | |
| Invested in capital assets, net of related debt | \$ 107,612,184 | \$ 111,827,733 | \$ 108,509,353 | \$ 101,000,705 |
| Restricted | 25,996,744 | 12,175,085 | 12,161,398 | 20,792,878 |
| Unrestricted | 25,605,477 | 20,322,562 | 17,832,257 | 9,489,668 |
| Total net assets | <u>\$ 159,214,405</u> | <u>\$ 144,325,380</u> | <u>\$ 138,503,008</u> | <u>\$ 131,283,251</u> |

City of St. Clair Shores, Michigan

| | | Taxable Value by Property Type | | | |
|----------|------------------------------|--------------------------------|----------------|---------------|--------------|
| | | Real Property | | | Agricultural |
| Tax Year | Fiscal year ended June 30 | Residential | Commercial | Industrial | and Other |
| 1996 | 1997 | \$ 1,107,858,615 | \$ 123,291,900 | \$ 18,640,439 | \$ - |
| 1997 | 1998 | 1,140,843,523 | 127,149,015 | 19,195,286 | - |
| 1998 | 1999 | 1,179,830,729 | 134,535,269 | 19,579,197 | - |
| 1999 | 2000 | 1,211,064,658 | 144,326,486 | 18,595,461 | - |
| 2000 | 2001 | 1,254,057,702 | 153,999,457 | 19,019,880 | - |
| 2001 | 2002 | 1,316,791,725 | 161,868,462 | 19,604,994 | - |
| 2002 | 2003 | 1,382,323,800 | 171,516,700 | 19,960,300 | - |
| 2003 | 2004 | 1,431,082,050 | 176,523,300 | 20,556,600 | - |
| 2004 | 2005 | 1,490,343,700 | 183,426,900 | 20,569,000 | - |
| 2005 | 2006 | 1,552,879,800 | 196,817,900 | 19,873,700 | - |

Note 1: Under Michigan law, the revenue base is referred to as “taxable value.” This amount represents assessed value (50% of true cash value), limited for each property by the lower of 5% or inflation.

Note 2: Taxes levied in a particular “tax year” become revenue of the subsequent fiscal year.

**Taxable Value and Actual Value of Taxable Property
Last Ten Fiscal Years**

| Personal Property | Total Value | Direct City Tax Rate (Mills) | Estimated Actual Value | Taxable Value as a % of Actual |
|----------------------|------------------|---------------------------------|---------------------------|-----------------------------------|
| \$ 57,500,991 | \$ 1,307,291,945 | 12.8527 | \$ 2,649,365,660 | 49.34% |
| 58,682,761 | 1,345,870,585 | 12.8527 | 2,795,161,008 | 48.15% |
| 63,008,711 | 1,396,953,906 | 12.8333 | 3,018,415,712 | 46.28% |
| 67,766,818 | 1,441,753,423 | 13.2320 | 3,455,749,516 | 41.72% |
| 65,115,869 | 1,492,192,908 | 14.9975 | 3,698,365,036 | 40.35% |
| 65,889,360 | 1,564,154,541 | 14.7980 | 3,984,737,566 | 39.25% |
| 63,289,490 | 1,637,090,290 | 15.0063 | 4,298,064,780 | 38.09% |
| 64,030,600 | 1,692,192,550 | 15.4504 | 4,538,070,200 | 37.29% |
| 65,265,200 | 1,759,604,800 | 15.8504 | 4,668,175,800 | 37.69% |
| 67,585,300 | 1,837,156,700 | 17.9863 | 4,812,009,400 | 38.18% |

City of St. Clair Shores, Michigan

| Water and Sewer Revenue Bonds | | | | | | | |
|-------------------------------|---------------|--------------|--------------|--------------|------------|----------|--|
| Fiscal Year | Applicable | | | Debt Service | | Coverage | |
| | Gross Revenue | Expenses | Net Revenues | Principal | Interest | | |
| 1997 | \$ 11,877,862 | \$ 9,593,631 | \$ 2,284,231 | \$ 240,000 | \$ 144,468 | 5.94 | |
| 1998 | 10,557,611 | 10,350,661 | 206,950 | 345,000 | 225,521 | 0.36 | |
| 1999 | 12,637,206 | 10,934,570 | 1,702,636 | 390,000 | 215,664 | 2.81 | |
| 2000 | 11,682,197 | 10,827,689 | 854,508 | 415,000 | 118,568 | 1.60 | |
| 2001 | 11,911,869 | 9,561,758 | 2,350,111 | 455,000 | 167,648 | 3.77 | |
| 2002 | 12,968,727 | 11,041,875 | 1,926,852 | 480,000 | 145,783 | 3.08 | |
| 2003 | 14,363,454 | 12,691,101 | 1,672,353 | 255,000 | 122,345 | 4.43 | |
| 2004 | 15,259,119 | 12,846,335 | 2,412,784 | 270,000 | 109,695 | 6.35 | |
| 2005 | 14,716,964 | 13,752,029 | 964,935 | 130,000 | 66,798 | 4.90 | |
| 2006 | 16,416,028 | 12,544,782 | 3,871,246 | 150,000 | 62,948 | 18.18 | |

**Pledged Revenue Coverage
Last Ten Fiscal Years**

| Recreational Revenue Bonds | | | | | | |
|----------------------------|------------------------|-----------------|--------------|------------|----------|--|
| Gross Revenues | Applicable Expenses | Net Revenues | Debt Service | | Coverage | |
| | | | Principal | Interest | | |
| \$ 1,804,043 | \$ 946,468 | \$ 857,575 | \$ 185,000 | \$ 284,866 | 1.83 | |
| 1,886,361 | 1,098,534 | 787,827 | 185,000 | 277,651 | 1.70 | |
| 1,857,250 | 1,148,057 | 709,193 | 235,000 | 268,223 | 1.41 | |
| 1,617,209 | 1,250,397 | 366,812 | 260,000 | 257,970 | 0.71 | |
| 1,752,748 | 1,412,484 | 340,264 | 360,000 | 233,552 | 0.57 | |
| 1,763,180 | 1,421,070 | 342,110 | 385,000 | 216,452 | 0.57 | |
| 1,795,653 | 1,264,434 | 531,219 | 250,000 | 140,683 | 1.36 | |
| 1,833,085 | 1,316,125 | 516,960 | 265,000 | 126,890 | 1.32 | |
| 1,818,624 | 1,430,147 | 388,477 | 270,000 | 121,590 | 0.99 | |
| 1,853,656 | 1,474,654 | 379,002 | 275,000 | 116,190 | 0.97 | |

City of St. Clair Shores, Michigan

| | 2006 | 2005 | 2004 | 2003 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Governmental Activities | | | | |
| General obligation bonds | \$ 4,060,000 | \$ 4,965,000 | \$ 5,845,000 | \$ 6,735,000 |
| County drain obligations | 16,993,909 | 33,130,581 | 32,680,113 | 33,170,724 |
| Special assessment bonds | - | - | - | - |
| Capital leases | 436,349 | 625,053 | 764,017 | 581,699 |
| Component unit (TIFA) | 2,120,000 | 2,365,000 | 2,595,000 | 2,800,000 |
| Contractual obligations | - | - | - | - |
| Total | 23,610,258 | 41,085,634 | 41,884,130 | 43,287,423 |
| Business-type Activities | | | | |
| General obligation bonds | - | - | 160,000 | 310,000 |
| County drain obligations | 30,501,908 | - | - | - |
| Revenue bonds | 5,115,000 | 5,515,000 | 5,785,000 | 6,140,000 |
| Capital leases | - | - | - | - |
| Total | 35,616,908 | 5,515,000 | 5,945,000 | 6,450,000 |
| Total debt of the government | <u>\$ 59,227,166</u> | <u>\$ 46,600,634</u> | <u>\$ 47,829,130</u> | <u>\$ 49,737,423</u> |
| Total Residential Personal Income | Not available | Not available | \$ 2,113,143,664 | \$ 2,145,008,064 |
| Ratio of total debt to personal income | - | - | 2.26% | 2.32% |
| Total Population | 60,759 | 61,027 | 61,343 | 62,268 |
| Total debt per capita | \$ 975 | \$ 764 | \$ 780 | \$ 799 |

**Ratio of Outstanding Debt
Last Ten Fiscal Years**

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 12,300,000 | \$ 11,590,000 | \$ 7,475,000 | \$ 8,080,000 | \$ 8,535,000 | \$ 7,795,000 |
| 29,468,113 | 3,323,958 | 749,143 | 943,244 | 1,128,993 | 1,298,242 |
| - | - | - | - | 230,000 | 460,000 |
| 738,558 | 912,039 | 1,078,121 | 1,200,104 | 854,362 | 1,080,880 |
| 2,980,000 | 3,140,000 | 3,280,000 | 3,400,000 | 3,500,000 | - |
| - | - | - | - | - | 410,000 |
| 45,486,671 | 18,965,997 | 12,582,264 | 13,623,348 | 14,248,355 | 11,044,122 |
| 455,000 | 595,000 | 725,000 | 850,000 | 970,000 | 1,085,000 |
| - | - | - | - | - | - |
| 6,620,000 | 7,295,000 | 7,905,000 | 8,455,000 | 8,960,000 | 9,375,000 |
| 32,275 | 176,275 | 320,275 | 474,000 | 481,000 | 695,333 |
| 7,107,275 | 8,066,275 | 8,950,275 | 9,779,000 | 10,411,000 | 11,155,333 |
| \$ 52,593,946 | \$ 27,032,272 | \$ 21,532,539 | \$ 23,402,348 | \$ 24,659,355 | \$ 22,199,455 |
| \$ 2,145,834,816 | \$ 2,173,531,008 | \$ 2,134,880,352 | \$ 2,156,548,144 | \$ 2,223,721,744 | \$ 2,294,374,592 |
| 2.45% | 1.24% | 1.01% | 1.09% | 1.11% | 0.97% |
| 62,292 | 63,096 | 61,974 | 62,603 | 64,553 | 66,604 |
| \$ 844 | \$ 428 | \$ 347 | \$ 374 | \$ 382 | \$ 333 |

City of St. Clair Shores, Michigan

| Fiscal Year | Tax-limited | | Less Pledged | | |
|-------------|------------------|---------------|--------------|-----------------|--------------|
| | General | | | | |
| | Obligation Bonds | Tax Supported | Debt Service | Other General | Net General |
| | (LTGO) | Bonds (UTGO) | Funds | Obligation Debt | Bonded Debt |
| 1997 | \$ 7,795,000 | \$ - | \$ (588,389) | \$ 2,789,122 | \$ 9,995,733 |
| 1998 | 8,535,000 | - | (553,860) | 1,983,855 | 9,964,995 |
| 1999 | 8,080,000 | - | (274,557) | 2,143,348 | 9,948,791 |
| 2000 | 7,475,000 | - | (283,884) | 1,827,264 | 9,018,380 |
| 2001 | 11,590,000 | - | (852,494) | 4,235,997 | 14,973,503 |
| 2002 | 12,300,000 | - | (1,724,471) | 30,206,671 | 40,782,200 |
| 2003 | 6,735,000 | - | (4,514,862) | 33,752,423 | 35,972,561 |
| 2004 | 5,845,000 | - | (3,290,020) | 33,444,130 | 35,999,110 |
| 2005 | 4,965,000 | - | (3,382,753) | 33,755,634 | 35,337,881 |
| 2006 | 4,060,000 | - | (3,111,389) | 47,932,167 | 48,880,778 |

**Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years**

| Taxable Value | | Debt as a Percentage of Taxable Value | Population | Debt per Capita |
|---------------|---------------|---|------------|--------------------|
| \$ | 1,275,813,790 | 0.78% | 66,604 | 150 |
| | 1,307,291,945 | 0.76% | 64,553 | 154 |
| | 1,345,870,585 | 0.74% | 62,603 | 159 |
| | 1,396,953,906 | 0.65% | 61,974 | 146 |
| | 1,441,753,423 | 1.04% | 63,096 | 237 |
| | 1,492,192,908 | 2.73% | 62,292 | 655 |
| | 1,567,930,820 | 2.29% | 62,268 | 578 |
| | 1,638,213,813 | 2.20% | 61,343 | 587 |
| | 1,759,604,800 | 2.01% | 61,027 | 579 |
| | 1,837,156,700 | 2.66% | 60,759 | 805 |

City of St. Clair Shores, Michigan

Computation of Direct and Overlapping Debt June 30, 2006

| Jurisdiction | General Bonded Debt Obligation | Percent Applicable to St. Clair Shores Taxpayers | Amount Applicable to St. Clair Shores Taxpayers |
|--|-----------------------------------|--|--|
| Direct debt - City of St. Clair Shores | \$ 51,555,817 | 100.00 | \$ 51,555,817 |
| Overlapping debt: | | | |
| County of Macomb | 72,659,479 | 6.42 | 4,664,739 |
| Macomb Intermediate | 2,500,000 | 6.29 | 157,250 |
| L'Anse Creuse Schools | 144,535,000 | 0.08 | 115,628 |
| Lake Shore Schools | 26,720,000 | 100.00 | 26,720,000 |
| Lakeview Schools | 30,785,000 | 100.00 | 30,785,000 |
| South Lake Schools | <u>20,805,000</u> | 85.76 | <u>17,842,368</u> |
| Total overlapping debt | <u>298,004,479</u> | | <u>80,284,985</u> |
| Total | <u><u>\$ 349,560,296</u></u> | | <u><u>\$ 131,840,802</u></u> |

City of St. Clair Shores, Michigan

Demographic and Economic Statistics Last Ten Years

| Fiscal Year Ended June 30 | Estimated Population | Personal Income (In Thousands) (1) | Per Capita Personal Income (In Thousands) (1) | Unemployment Rate (Percent) (2) |
|------------------------------|-------------------------|---------------------------------------|---|---------------------------------------|
| 1997 | 64,553 (4) | \$ 21,474,827 | \$ 27,656 | 3.9% |
| 1998 | 62,603 (4) | 22,861,388 | 29,326 | 3.2% |
| 1999 | 61,974 (4) | 24,302,127 | 31,004 | 3.3% |
| 2000 | 63,096 (3) | 26,057,293 | 32,944 | 3.4% |
| 2001 | 62,613 (4) | 26,267,199 | 32,815 | 4.5% |
| 2002 | 62,292 (4) | 26,595,218 | 32,915 | 5.9% |
| 2003 | 62,268 (4) | 27,897,350 | 34,206 | 6.2% |
| 2004 | 61,343 (4) | 28,349,102 | 34,448 | 6.0% |
| 2005 | 61,027 (4) | Not available | Not available | 7.6% |
| 2006 | 60,759 (4) | Not available | Not available | 7.1% |

(1) Yearly total for Macomb County; data not available on a local level. Data obtained from Michigan Department of Labor

(2) All unemployment data is from Michigan Employment Security Commission

(3) From federal census

(4) State demographer (SEMCOG)

City of St. Clair Shores, Michigan

| Function/Program | Fiscal | | | | |
|---|------------|------------|------------|------------|------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| General government: | | | | | |
| Court | 21 | 19 | 21 | 22 | 22 |
| City Manager | 3 | 3 | 3 | 4 | 4 |
| Finance | 10 | 10 | 11 | 13 | 13 |
| Clerk/Elections | 5 | 5 | 5 | 6 | 7 |
| Assessing | 4 | 4 | 5 | 6 | 7 |
| Information Systems | 3 | 3 | 3 | 4 | 4 |
| Building Maintenance | 4 | 4 | 5 | 5 | 5 |
| Police | 101 | 99 | 104 | 106 | 108 |
| Fire | 50 | 50 | 50 | 54 | 55 |
| Community Development | 15 | 14 | 17 | 18 | 19 |
| DPW Administration | 1* | 2 | 2 | 2 | 2 |
| Sanitation | 2 | 1 | 1 | 1 | 1 |
| Parks & Recreation Administration | 8 | 8 | 9 | 9 | 9 |
| Recreation | 7 | 7 | 6 | 6 | 6 |
| Arena | 8 | 8 | 9 | 10 | 10 |
| Parks | 15 | 15 | 15 | 17 | 17 |
| Senior Activity Center | 7 | 7 | 7 | 8 | 8 |
| Library & Information Services | 23 | 20 | 23 | 23 | 24 |
| Utility Fund: | | | | | |
| Water | 16 | 21 | 23 | 23 | 24 |
| Sewer | 8 | 8 | 8 | 8 | 9 |
| Storm Sewer | 0 | 0 | 3 | 3 | 3 |
| Motor Pool | 3 | 4 | 5 | 5 | 6 |
| Streets | 13 | 15 | 16 | 16 | 18 |
| Recreational Revenue System: | | | | | |
| Boating | 9 | 9 | 8 | 9 | 9 |
| Swimming Pool | 7 | 7 | 7 | 7 | 7 |
| Golf | 21 | 18 | 18 | 18 | 18 |
| | 363 | 361 | 384 | 403 | 415 |
| Full-time employees | 274 | 281 | 300 | 307 | 320 |
| Part-time employees (at full-time equivalent) | 89 | 80 | 84 | 96 | 95 |
| | 363 | 361 | 384 | 403 | 415 |

Figures obtained through actual budgets

* Beginning with fiscal year 2006, the DPW supervisor position was moved to the sanitation department

**Full-time Equivalent Government Employees
June 30, 2006**

| Year | | | | |
|------------|------------|------------|------------|------------|
| 2001 | 2000 | 1999 | 1998 | 1997 |
| 22 | 22 | 22 | 21 | 19 |
| 4 | 4 | 4 | 3 | 3 |
| 13 | 14 | 14 | 14 | 14 |
| 7 | 6 | 7 | 7 | 6 |
| 7 | 6 | 7 | 7 | 6 |
| 4 | 4 | 4 | 4 | 4 |
| 5 | 5 | 5 | 4 | 4 |
| 108 | 108 | 106 | 106 | 105 |
| 55 | 55 | 54 | 52 | 51 |
| 19 | 19 | 19 | 17 | 15 |
| 2 | 2 | 2 | 2 | 2 |
| 1 | 1 | 1 | 1 | 1 |
| 10 | 10 | 10 | 10 | 9 |
| 5 | 4 | 4 | 4 | 3 |
| 10 | 10 | 10 | 10 | 10 |
| 17 | 17 | 16 | 16 | 16 |
| 8 | 7 | 7 | 6 | 6 |
| 24 | 24 | 23 | 21 | 21 |
| 24 | 24 | 24 | 25 | 24 |
| 9 | 9 | 9 | 9 | 7 |
| 3 | 4 | 4 | 4 | 2 |
| 6 | 6 | 6 | 6 | 6 |
| 18 | 20 | 20 | 19 | 19 |
| 8 | 8 | 8 | 7 | 7 |
| 7 | 7 | 7 | 6 | 6 |
| 18 | 18 | 18 | 17 | 16 |
| 414 | 414 | 411 | 398 | 382 |
| 314 | 321 | 318 | 312 | 304 |
| 100 | 93 | 93 | 86 | 78 |
| 414 | 414 | 411 | 398 | 382 |

City of St. Clair Shores, Michigan

| Function/Program | Fiscal | | | | |
|--|---------|---------|---------|---------|---------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Police protection: | | | | | |
| Part 1 crimes (1) | 2,725 | 2,515 | 2,485 | 2,659 | 2,532 |
| Part 2 crimes (2) | 4,713 | 4,435 | 4,341 | 3,702 | 3,541 |
| Injury accidents | 279 | 339 | 318 | 385 | 382 |
| Property damage | 1,231 | 1,429 | 1,297 | 1,476 | 1,378 |
| Private property damage (3) | 149 | 158 | 156 | 167 | 163 |
| Civil infractions | 23,947 | 18,949 | 12,857 | 10,979 | 14,055 |
| Parking violations | 7,440 | 6,592 | 4,319 | 4,069 | 5,026 |
| Adult arrests | 2,420 | 2,315 | 2,174 | 1,878 | 1,644 |
| Juvenile arrests | 126 | 103 | 149 | 123 | 149 |
| OUIL arrests | 206 | 189 | 190 | 183 | 117 |
| False alarm billings (3) | 1,392 | 1,374 | 1,600 | 1,641 | 1,659 |
| Fire protection: | | | | | |
| Emergency alarms answered | 6,271 | 6,293 | 6,315 | 6,064 | 6,117 |
| Medical emergencies (EMS) | 4,894 | 4,510 | 4,547 | 4,328 | 4,297 |
| Fire inspections conducted - All types | 1,258 | 538 | 701 | 2,023 | 3,400 |
| Code violations | 3,018 | 2,182 | 1,758 | 2,570 | 3,550 |
| Training hours completed | 853 | 844 | 764 | 1,014 | 986 |
| Library: | | | | | |
| Registered borrowers | 23,850 | 23,451 | 27,638 | 25,451 | 22,857 |
| Items circulated | 336,518 | 322,508 | 307,769 | 310,687 | 296,499 |
| Reference transactions | 20,816 | 22,196 | 28,811 | 27,466 | 25,624 |
| Program attendance | 8,148 | 7,174 | 6,708 | 5,784 | 6,726 |
| Library visits | 183,515 | 203,730 | 203,203 | 211,769 | 183,271 |
| Museum visits | 2,507 | 2,487 | 2,128 | 2,250 | 2,235 |
| Hours of literacy tutoring | 1,293 | 1,413 | 1,095 | 1,165 | 1,387 |
| Library website logins (3) | 94,831 | 95,427 | 88,500 | 66,304 | 50,550 |
| Electronic database logins (3) | 11,894 | 14,874 | 14,714 | 17,440 | 17,357 |
| Internet sessions (3) | 26,316 | 24,099 | 19,527 | 16,906 | 15,358 |

Sources: Various city departments and prior year Comprehensive Annual Financial Reports

(1) Murder, criminal sexual conduct, robbery, aggravated assault, burglary, larceny, arson, vehicle theft

(2) Malicious destruction of property, disorderly conduct, assault, family trouble, etc.

(3) Not included in statistical data for all of the last 10 fiscal years - information was either not tracked or service was not available at that time

Operating Indicators
June 30, 2006

| Year | | | | |
|---------|---------|---------|---------|---------|
| 2001 | 2000 | 1999 | 1998 | 1997 |
| 2,370 | 2,641 | 2,656 | 2,589 | 2,771 |
| 3,492 | 3,357 | 2,116 | 4,582 | 3,099 |
| 427 | 370 | 377 | 380 | 444 |
| 1,331 | 1,170 | 1,254 | 1,250 | 1,256 |
| 159 | 176 | Unknown | Unknown | Unknown |
| 16,843 | 18,178 | 16,996 | 17,824 | 16,753 |
| 5,528 | 6,544 | 6,862 | 4,416 | 5,786 |
| 1,594 | 1,844 | 1,700 | 1,720 | 1,727 |
| 294 | 154 | 187 | 296 | 349 |
| 127 | 134 | 142 | 130 | 160 |
| 1,657 | 1,754 | Unknown | Unknown | Unknown |
| 6,072 | 6,007 | 5,469 | 5,289 | 1,623 |
| 4,301 | 4,231 | 3,791 | 3,634 | 3,791 |
| 1,642 | 1,348 | 1,371 | 1,583 | 1,543 |
| 1,622 | 5,392 | 5,484 | 3,166 | 6,172 |
| 480 | 369 | 213 | 1,235 | 265 |
| 20,156 | 29,971 | 29,974 | 29,979 | 29,848 |
| 300,921 | 291,925 | 294,368 | 308,172 | 303,572 |
| 28,851 | 28,345 | 27,220 | 30,203 | 32,520 |
| 6,539 | 6,332 | 4,243 | 5,146 | 5,161 |
| 193,359 | 195,335 | 205,509 | 200,132 | 200,768 |
| 2,828 | 2,688 | 2,356 | 2,500 | 2,500 |
| 1,043 | 932 | 1,106 | 1,558 | 1,409 |
| N/A | N/A | N/A | N/A | N/A |
| 19,041 | 23,236 | 30,402 | 30,402 | Unknown |
| 11,623 | 10,839 | N/A | N/A | N/A |

City of St. Clair Shores, Michigan

| Function/Program | Fiscal | | | | |
|---|----------|----------|----------|----------|----------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Election data (November general election data): | | | | | |
| Registered voters | 47,798 | 47,531 | 46,954 | 47,231 | 49,250 |
| Voters at polls | 8,956 | 25,618 | 9,434 | 18,641 | 9,486 |
| Absentee ballots | 5,886 | 10,573 | 5,903 | 7,675 | 5,570 |
| Percent voting | 31.05% | 76.14% | 32.66% | 55.72% | 19% |
| 40th District Court - Cases handled: | | | | | |
| Civil | 1,593 | 1,396 | 1,383 | 1,479 | 1,210 |
| Criminal | 1,890 | 1,795 | 1,598 | 1,776 | 2,035 |
| Traffic | 19,718 | 21,213 | 18,326 | 15,759 | 18,995 |
| Landlord and tenant | 372 | 268 | 316 | 260 | 214 |
| Small claims | 332 | 373 | 403 | 445 | 453 |
| Parking | 7,525 | 6,533 | 4,286 | 4,206 | 5,315 |
| Water and sewer services: | | | | | |
| Customers: | | | | | |
| Residential | 23,958 | 23,952 | 23,937 | 23,915 | 23,890 |
| Commercial | 1,272 | 1,277 | 1,271 | 1,281 | 1,279 |
| Water (in thousand cubic feet): | | | | | |
| Purchased from Detroit | 307,220 | 334,315 | 301,467 | 329,918 | 287,550 |
| Sold to residents | 261,208 | 239,213 | 266,265 | 262,300 | 260,474 |
| Water rates (in thousand cubic feet): | | | | | |
| 1,000 CU feet | \$ 17.60 | \$ 18.95 | \$ 19.07 | \$ 17.30 | \$ 15.20 |
| 2,000 CU feet | \$ 17.60 | \$ 18.95 | \$ 19.07 | \$ 17.30 | \$ 15.20 |
| Over 3,000 CU feet | \$ 17.60 | \$ 18.95 | \$ 19.07 | \$ 17.30 | \$ 15.20 |
| Sewer rates (in thousand cubic feet): | | | | | |
| 1,000 CU feet | \$ 26.53 | \$ 26.53 | \$ 26.12 | \$ 23.16 | \$ 21.35 |
| 2,000 CU feet | \$ 26.53 | \$ 26.53 | \$ 26.12 | \$ 23.16 | \$ 21.35 |
| Over 3,000 CU feet | \$ 26.53 | \$ 26.53 | \$ 26.12 | \$ 23.16 | \$ 21.35 |

Sources: Various city departments and prior year Comprehensive Annual Financial Report

Operating Indicators (Continued)
June 30, 2006

| Year | | | | | |
|------|---------|----------|----------|----------|----------|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| | 48,989 | 49,190 | 49,156 | 50,809 | 49,972 |
| | 33,542 | 7,917 | 19,379 | 5,901 | 23,663 |
| | 9,507 | 5,195 | 7,331 | 5,231 | 8,804 |
| | 68% | 27% | 25% | 22% | 65% |
| | 963 | 974 | 941 | 916 | 1,329 |
| | 2,004 | 1,784 | 1,763 | 2,399 | 1,556 |
| | 23,569 | 21,519 | 17,376 | 16,658 | 19,173 |
| | 205 | 231 | 171 | 155 | 152 |
| | 386 | 354 | 424 | 491 | 498 |
| | 6,889 | 5,795 | 7,191 | 6,171 | 5,938 |
| | 23,852 | 23,868 | 23,831 | 23,836 | 23,857 |
| | 1,271 | 1,283 | 1,300 | 1,288 | 1,383 |
| | 282,408 | 299,221 | 310,103 | 310,013 | 303,249 |
| | 256,197 | 274,654 | 285,919 | 242,349 | 279,359 |
| \$ | 16.82 | \$ 13.92 | \$ 18.01 | \$ 16.91 | \$ 16.24 |
| \$ | 16.82 | \$ 13.92 | \$ 18.01 | \$ 16.91 | \$ 16.24 |
| \$ | 16.82 | \$ 13.92 | \$ 18.01 | \$ 16.91 | \$ 16.24 |
| \$ | 19.16 | \$ 20.71 | \$ 20.35 | \$ 19.11 | \$ 18.45 |
| \$ | 19.16 | \$ 20.71 | \$ 20.35 | \$ 19.11 | \$ 18.45 |
| \$ | 19.16 | \$ 20.71 | \$ 20.35 | \$ 19.11 | \$ 18.45 |

City of St. Clair Shores, Michigan

| Function/Program | Fiscal | | | | |
|---------------------------------------|--------|--------|--------|--------|--------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Parks and recreation: | | | | | |
| Adult athletic attendance | 880 | 1,050 | 1,100 | 2,500 | 2,000 |
| Youth athletic attendance | 7,165 | 3,425 | 3,300 | 3,000 | 3,000 |
| Instructional swim attendance | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Instructional rec attendance | 2,350 | 2,300 | 2,250 | 175 | 175 |
| Senior program attendance | 40,050 | 38,939 | 43,897 | 48,379 | 49,578 |
| SMART program attendance | 20,905 | 19,259 | 14,570 | 11,520 | 13,014 |
| USDA meals program/senior meals | 5,719 | 5,441 | 5,096 | 6,306 | 6,301 |
| Health-O-Rama attendance | 109 | 215 | 146 | 176 | 215 |
| Seniors apple pie sale (# sold) | 1,260 | 1,260 | 1,260 | 1,260 | 1,260 |
| Senior volunteer hours | 16,351 | 16,305 | 14,736 | 13,169 | 9,732 |
| Summer playground attendance | 1,200 | 1,300 | 1,335 | 1,340 | 1,170 |
| Pool attendance | 21,800 | 13,400 | 12,600 | 12,000 | 11,904 |
| Boat wells rented (1) | 315 | 325 | 348 | 353 | 315 |
| Pool/waterslide attendance | 12,000 | 10,500 | 10,500 | 11,500 | 11,337 |
| Boat ramp usage | 15,000 | 14,500 | 14,000 | 13,500 | 13,000 |
| Golf course attendance | 54,124 | 54,771 | 58,858 | 60,330 | 65,563 |
| Ice rental - Number of hours (2) | 7,730 | 8,443 | 8,601 | 8,583 | 8,917 |
| Public skating attendance (3) | 8,110 | 5,607 | 6,872 | 8,655 | 9,122 |
| Ice skating lessons attendance | 1,696 | 1,570 | 1,569 | 1,502 | 1,484 |
| Special events attendance (4) | 16,383 | 14,231 | 13,300 | 11,500 | 10,500 |
| Special recreation program attendance | 1,200 | 900 | 850 | 360 | 315 |

Sources: Various city departments and prior year Comprehensive Annual Financial Report

- (1) Number of rentals may exceed wells available for rent due to wells being reserved for more than one party during a season
- (2) Rental hours
- (3) Includes public skate, adult skate, shift hockey, and parent/tot skates
- (4) 1998 increase due to completion of ice arena renovation; includes the ice show, Autumn Classic, four SilverStick tournaments, and the state tournament

Operating Indicators (Continued)
June 30, 2006

| Year | | | | |
|------|--------|--------|--------|--------|
| | 2001 | 2000 | 1999 | 1998 |
| | 2,000 | 1,200 | 1,200 | 1,288 |
| | 3,000 | 2,790 | 3,000 | 2,036 |
| | 910 | 700 | 840 | 776 |
| | 100 | 150 | 175 | 370 |
| | 47,321 | 49,625 | 49,292 | 50,963 |
| | 12,689 | 14,590 | 14,829 | 17,974 |
| | 6,247 | 6,992 | 7,127 | 6,840 |
| | 281 | 257 | 246 | 257 |
| | 1,260 | 1,260 | 1,260 | 1,250 |
| | 9,935 | 9,527 | 9,966 | 8,955 |
| | 1,530 | 1,170 | 1,200 | 990 |
| | 17,538 | 27,945 | 27,274 | 25,409 |
| | 362 | 365 | 325 | 343 |
| | 19,600 | 8,573 | 6,881 | 4,312 |
| | 12,992 | 12,942 | 12,650 | 11,771 |
| | 66,273 | 72,567 | 76,415 | 82,205 |
| | 9,179 | 9,148 | 7,976 | 7,776 |
| | 9,224 | 14,610 | 14,610 | 20,034 |
| | 1,565 | 1,500 | 1,500 | 1,500 |
| | 10,500 | 7,500 | 7,500 | 2,000 |
| | 315 | 300 | 300 | 225 |

City of St. Clair Shores, Michigan

| Function/Program | Fiscal | | | | |
|-----------------------------------|---------|---------|---------|---------|---------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Police stations | 1 | 1 | 1 | 1 | 1 |
| Fire stations: | | | | | |
| Stations | 3 | 3 | 3 | 3 | 3 |
| Number of fire hydrants | 1,706 | 1,701 | 1,703 | 1,704 | 1,702 |
| Library: | | | | | |
| Book collections | 125,188 | 120,583 | 113,471 | 114,259 | 119,030 |
| Other collections (1) | 24,571 | 22,538 | 22,718 | 22,186 | 24,651 |
| Other public works: | | | | | |
| Miles of city streets - Primary | 35.08 | 35.08 | 35.08 | 35.08 | 35.08 |
| Miles of city streets - Secondary | 152.04 | 152.04 | 152.04 | 152.06 | 152.06 |
| Estimated miles of sidewalks | 365 | 365 | 365 | 365 | 365 |
| Bridges | 4 | 4 | 4 | 4 | 4 |
| Streetlights | 4,090 | 4,090 | 4,090 | 4,089 | 3,747 |
| Parks and recreation: | | | | | |
| Acres | 371 | 371 | 371 | 371 | 371 |
| Developed parks | 14 | 14 | 14 | 14 | 14 |
| Boat wells | 362 | 362 | 362 | 362 | 362 |
| Ice rinks | 2 | 2 | 2 | 2 | 2 |
| Senior center | 1 | 1 | 1 | 1 | 1 |
| Golf course | 1 | 1 | 1 | 1 | 1 |
| Water and sewer: | | | | | |
| Miles of water mains | 220 | 220 | 220 | 220 | 220 |
| Miles of sanitary sewers | 229 | 229 | 229 | 229 | 227 |

Sources: Various city departments and prior year Comprehensive Annual Financial Report

Note: No capital asset indicators are available for the general government

(1) Includes audio/video cassettes, compact discs, talking books, magazines, etc.

Capital Asset Statistics
June 30, 2006

| Year | | | | | |
|------|---------|---------|---------|---------|---------|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| | 1 | 1 | 1 | 1 | 1 |
| | 3 | 3 | 3 | 3 | 3 |
| | 1,673 | 1,658 | 1,665 | 1,645 | 1,630 |
| | 122,699 | 128,584 | 121,259 | 123,750 | 120,893 |
| | 23,413 | 32,203 | 27,948 | 23,432 | 17,775 |
| | 35.08 | 35.08 | 35.08 | 35.10 | 35.08 |
| | 152.06 | 152.06 | 152.07 | 152.07 | 152.07 |
| | 365 | 365 | 365 | 365 | 365 |
| | 4 | 4 | 2 | 2 | 2 |
| | 3,747 | 3,747 | 3,747 | 3,747 | 3,747 |
| | 371 | 371 | 371 | 367 | 367 |
| | 14 | 14 | 14 | 13 | 13 |
| | 362 | 362 | 362 | 362 | 362 |
| | 2 | 2 | 2 | 2 | 2 |
| | 1 | 1 | 1 | 1 | 1 |
| | 1 | 1 | 1 | 1 | 1 |
| | 220 | 220 | 220 | 220 | 220 |
| | 227 | 227 | 227 | 230 | 230 |

City of St. Clair Shores, Michigan

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City of St. Clair Shores, Michigan

Direct City Taxes

| Fiscal Year Ended June 30 | Operating | Sanitation | Police and Fire Retirement System | Other ACT 359 | Police and Fire Operating | Residential Streets | Water | Debt Service | Library | Total Direct Taxes |
|---------------------------------|-----------|------------|--|------------------|---------------------------------|------------------------|--------|-----------------|---------|-----------------------|
| 1997 | 6.8120 | 2.5545 | 1.5466 | 0.0388 | - | 1.0000 | - | 0.7203 | 0.1805 | 12.8527 |
| 1998 | 6.8120 | 2.5545 | 1.7443 | 0.0377 | - | 1.0000 | - | 0.4972 | 0.2070 | 12.8527 |
| 1999 | 6.8025 | 2.5509 | 1.5759 | 0.0363 | - | 0.9986 | - | 0.5371 | 0.3320 | 12.8333 |
| 2000 | 6.7712 | 2.5392 | 1.1998 | 0.0353 | - | 0.9938 | 0.9952 | 0.3655 | 0.3320 | 13.2320 |
| 2001 | 6.6960 | 2.5110 | 1.1995 | 0.0341 | - | 0.9843 | 0.9843 | 2.2561 | 0.3322 | 14.9975 |
| 2002 | 6.5997 | 2.4748 | 1.2579 | 0.0325 | - | 0.9700 | 0.9700 | 2.1607 | 0.3324 | 14.7980 |
| 2003 | 6.5600 | 2.4599 | 0.8997 | 0.0311 | - | 0.9642 | 0.9642 | 2.3690 | 0.7582 | 15.0063 |
| 2004 | 6.4766 | 2.4286 | 1.4376 | 0.0301 | - | 0.9519 | 0.9519 | 2.4155 | 0.7582 | 15.4504 |
| 2005 | 6.4073 | 2.4026 | 1.9296 | 0.0289 | - | 0.9417 | 0.9893 | 2.2106 | 0.9404 | 15.8504 |
| 2006 | 6.3310 | 2.3740 | 2.5549 | 0.0277 | 1.5737 | 0.9881 | 0.9775 | 2.2302 | 0.9292 | 17.9863 |

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of our residents as follows:

| | | | | | | | | | |
|------|--------|--------|----------|--------|--------|--------|--------|----------|--------|
| 2006 | 6.3310 | 2.3740 | no limit | 0.0277 | 1.5737 | 0.9881 | 0.9775 | no limit | 0.9292 |
|------|--------|--------|----------|--------|--------|--------|--------|----------|--------|

**Property Tax Rates
Direct and Overlapping Government
(Per \$1,000 of Assessed Valuation)
Last Ten Fiscal Years**

| Overlapping Taxes | | | | | | | | | | | |
|--------------------------------|-----------------------------------|------------------|-----------|-------------------|--------------------|-------------------|--------------------|-------------------|------------------------|-------------------|----------------------|
| | | Lakeview Schools | | | Lake Shore Schools | | South Lake Schools | | L' Anse Creuse Schools | | |
| Macomb Community College | Macomb Intermediate Schools | Macomb County | Homestead | Non- homestead | Homestead | Non- homestead | Homestead | Non- homestead | Homestead | Non- homestead | State of Michigan |
| 1.6457 | 2.0367 | 4.7626 | 1.3000 | 19.3000 | - | 18.0000 | 7.0062 | 18.6900 | 6.6900 | 24.6900 | 6.0000 |
| 1.6539 | 2.0367 | 4.7616 | 1.3000 | 18.7114 | 4.6000 | 22.6000 | 7.9708 | 19.9700 | 6.7900 | 24.7900 | 6.0000 |
| 1.6134 | 2.0363 | 4.7614 | 1.3000 | 18.7114 | 4.5000 | 22.5000 | 9.9385 | 22.0600 | 6.6900 | 24.6900 | 6.0000 |
| 1.5840 | 2.0210 | 4.7571 | 1.3000 | 18.2182 | 4.5000 | 22.5000 | 9.7419 | 22.0900 | 6.6900 | 24.6900 | 6.0000 |
| 1.5140 | 2.0210 | 4.7545 | 1.1700 | 19.1700 | 4.1000 | 22.1000 | 9.3279 | 21.9865 | 6.6900 | 24.6900 | 6.0000 |
| 1.6707 | 2.0033 | 4.7481 | 4.7000 | 22.7000 | 3.9500 | 21.9500 | 9.4740 | 22.0378 | 6.1800 | 23.8974 | 6.0000 |
| 1.6925 | 2.9863 | 5.0228 | 4.6900 | 22.6900 | 3.9500 | 21.5036 | 8.9978 | 21.9749 | 6.6900 | 24.6900 | 6.0000 |
| 1.5859 | 2.9729 | 5.0192 | 4.6800 | 22.6800 | 3.9500 | 21.2543 | 8.9653 | 21.7191 | 6.6900 | 24.6900 | 5.0000 |
| 1.5002 | 2.9615 | 5.0161 | 4.6700 | 22.6700 | 3.9500 | 21.9500 | 8.8737 | 21.7191 | 6.6900 | 24.6900 | 6.0000 |
| 1.4212 | 2.9430 | 5.0116 | 4.4700 | 22.4700 | 3.9500 | 21.9500 | 8.7232 | 21.3210 | 7.0000 | 25.0000 | 6.0000 |

City of St. Clair Shores, Michigan

Property Tax Rates Direct and Overlapping Government (Per \$1,000 of Assessed Valuation) Last Ten Fiscal Years (Continued)

| Fiscal Year Ended June 30 | Total Tax Rate | | | | | | | |
|---------------------------------|------------------|---------------|--------------------|---------------|--------------------|---------------|------------------------|---------------|
| | Lakeview Schools | | Lake Shore Schools | | South Lake Schools | | L' Anse Creuse Schools | |
| | Homestead | Non-homestead | Homestead | Non-homestead | Homestead | Non-homestead | Homestead | Non-homestead |
| 1997 | 28.5977 | 46.5977 | 27.2977 | 45.2977 | 34.3039 | 45.9877 | 33.9877 | 51.9877 |
| 1998 | 28.6049 | 46.0163 | 31.9049 | 49.9049 | 35.2757 | 47.2749 | 34.0949 | 52.0949 |
| 1999 | 28.5444 | 45.9558 | 31.7444 | 49.7444 | 37.1829 | 49.3044 | 33.9344 | 51.9344 |
| 2000 | 28.8941 | 45.8123 | 32.0941 | 50.0941 | 37.3360 | 49.6841 | 34.2841 | 52.2841 |
| 2001 | 30.4570 | 48.4570 | 33.3870 | 51.3870 | 38.6149 | 51.2735 | 35.9770 | 53.9770 |
| 2002 | 33.9201 | 51.9201 | 33.1701 | 51.1701 | 38.6941 | 51.2579 | 35.4001 | 53.1175 |
| 2003 | 35.3979 | 53.3979 | 34.6579 | 52.2115 | 39.7057 | 52.6828 | 37.3979 | 55.3979 |
| 2004 | 34.7084 | 52.7084 | 33.9784 | 51.2827 | 38.9937 | 51.7475 | 36.7184 | 54.7184 |
| 2005 | 35.9982 | 53.9982 | 35.2782 | 53.2782 | 40.2019 | 53.0473 | 38.0182 | 56.0182 |
| 2006 | 37.8321 | 55.8321 | 37.3121 | 55.3121 | 42.0853 | 54.6831 | 40.3621 | 58.3621 |

City of St. Clair Shores, Michigan

State Equalized Valuation and Taxable Valuation Five-year History

| Assessed Value as of December 31 | Year of State Equalization and Tax Levy | City's Fiscal Year Ended June 30 | State Equalized Valuation | Ad Valorem Taxable Valuation |
|-------------------------------------|---|--|------------------------------|---------------------------------|
| 2004 | 2005 | 2006 | \$ 2,406,004,700 | \$ 1,837,156,700 |
| 2003 | 2004 | 2005 | 2,334,087,900 | 1,759,604,800 |
| 2002 | 2003 | 2004 | 2,269,035,100 | 1,692,192,550 |
| 2001 | 2002 | 2003 | 2,149,032,390 | 1,637,090,290 |
| 2000 | 2001 | 2002 | 2,022,903,435 | 1,567,930,820 |

Per capita 2006 Ad Valorem Taxable Value is \$30,237 based on the 2006 estimated population of 60,759.

City of St. Clair Shores, Michigan

Breakdown of Current Taxable Valuation June 30, 2006

| By Use | Percent |
|-------------|------------|
| Residential | 88 |
| Commercial | 11 |
| Industrial | 1 |
| Total | <u>100</u> |

| By Class | Percent |
|-------------------|------------|
| Real property | 96 |
| Personal property | 4 |
| Total | <u>100</u> |

City of St. Clair Shores, Michigan

Property Tax Levy and Collections Last Ten Fiscal Years

| Tax Year | Fiscal Years Ended June 30 | Total Tax Levy (1) | Current Collections | Percent of Levy Collected | Delinquent Collections | Total Tax Collections | Percent of Total Collections to Tax Levy |
|----------|-------------------------------------|-----------------------|------------------------|---------------------------------|---------------------------|--------------------------|---|
| 1996 | 1997 | \$ 16,802,231 | \$ 16,146,144 | 96.10 | \$ 453,355 | \$ 16,599,499 | 98.79 |
| 1997 | 1998 | 17,064,437 | 16,629,060 | 97.45 | 408,966 | 17,038,026 | 99.85 |
| 1998 | 1999 | 17,688,638 | 17,203,884 | 97.26 | 456,706 | 17,660,590 | 99.84 |
| 1999 | 2000 | 18,764,223 | 18,224,954 | 97.13 | 489,624 | 18,714,578 | 99.74 |
| 2000 | 2001 | 22,048,516 | 21,137,409 | 95.87 | 648,251 | 21,785,660 | 98.81 |
| 2001 | 2002 | 22,791,665 | 22,157,028 | 97.22 | 582,288 | 22,739,316 | 99.77 |
| 2002 | 2003 | 24,204,066 | 23,331,506 | 96.39 | 740,800 | 24,072,306 | 99.46 |
| 2003 | 2004 | 25,733,163 | 24,737,402 | 96.13 | 831,459 | 25,568,861 | 99.36 |
| 2004 | 2005 | 27,422,108 | 26,439,347 | 96.42 | 843,573 | 27,282,920 | 99.49 |
| 2005 | 2006 | 32,480,499 | 31,051,615 | 95.60 | 1,243,001 | 32,294,616 | 99.43 |

- (1) Includes operating, sanitation, Police and Fire Pension, Act 359, voted water and road levy, and long-term debt, but does not include penalty and interest on late payment of taxes

City of St. Clair Shores, Michigan

Tax Rate Limitations June 30, 2006

The City Charter provides tax rate limitations as follows:

| Purpose | Rate (per \$1,000 of State Equalized Valuation) | Maximum Permitted Rate per \$1,000 of Taxable Valuation |
|---------------------------------|---|---|
| General operating | \$ 8.00 | \$ 6.3310 |
| Voted street | 1.00 | 0.9881 |
| Voted water | 1.00 | 0.9775 |
| Voted police and fire operating | 1.5927 | 1.5737 |

The City may levy taxes in excess of the above limitation pursuant to State law for the following purposes:

| Purpose | Authority | Rate (per \$1,000 of Taxable Valuation) |
|--------------------------------------|---|--|
| Refuse collection and disposal | Act 298, P.A. of Michigan 1917, as amended | \$ 2.3740 |
| Police and fire pension requirements | Act 345, P.A. of Michigan 1937, as amended | Amount required to make contribution |
| Community promotion | Act 359, P.A. of Michigan 1925, as amended | 4.0 or \$50,000 (the lesser of the two) |
| Library | Act 164, P.A. of Michigan 1877, as amended | 0.9292 |

In addition, Article IX, Section 6 of the State of Michigan Constitution permits the levy of millage in excess of the above for:

1. All debt service on tax-supported bonds issued prior to December 23, 1978 or tax-supported issues that have been approved by the voters for which the issuer has pledged its full faith and credit
2. Operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit

City of St. Clair Shores, Michigan

Population

| | |
|-------------------|--------|
| 2006 (Estimated)* | 60,759 |
| 2000 U.S. Census | 63,096 |
| 1990 U.S. Census | 68,107 |
| 1980 U.S. Census | 76,210 |
| 1970 U.S. Census | 88,093 |

* Source: Southeast Michigan Council of Governments (SEMCOG)

City of St. Clair Shores, Michigan

Receipts of Gas and Weight Taxes Last Five Fiscal Years

| <u>Fiscal Year Ended June 30</u> | <u>Gas and Weight Tax Monies Received</u> |
|--------------------------------------|---|
| 2006 | \$ 3,515,658 |
| 2005 | 3,558,482 |
| 2004 | 3,684,015 |
| 2003 | 3,413,423 |
| 2002 | 3,398,808 |

City of St. Clair Shores, Michigan

| | 2006 | 2005 | 2004 | 2003 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Calculation of Debt Limit - | | | | |
| State equalized valuation | \$ 2,406,004,700 | \$ 2,334,087,900 | \$ 2,269,035,100 | \$ 2,149,032,390 |
| Debt limit (10% of equalized value) | 240,600,470 | 233,408,790 | 226,903,510 | 214,903,239 |
| Calculation of Debt Subject to Limit | | | | |
| Total debt | 47,495,818 | 45,975,976 | 44,470,113 | 49,155,724 |
| Less debt not subject to limit: | | | | |
| Special Assessment Bonds | - | - | - | - |
| Revenue Bonds | 5,860,000 | 6,365,000 | 6,735,000 | 7,185,000 |
| Michigan Transportation Bonds | 3,315,000 | 4,115,000 | 4,895,000 | 5,690,000 |
| TIFA Bonds | 2,120,000 | 2,365,000 | 2,595,000 | 2,800,000 |
| Net direct debt | 36,200,818 | 33,130,976 | 30,245,113 | 33,480,724 |
| Indirect debt - Share of County/ Federal Issued Bonds | - | - | 160,000 | 310,000 |
| Net debt subject to limit | 36,200,818 | 33,130,976 | 30,085,113 | 33,170,724 |
| Legal debt margin | <u>\$ 204,399,652</u> | <u>\$ 200,277,814</u> | <u>\$ 196,818,397</u> | <u>\$ 181,732,515</u> |
| Net debt subject to limit as % of debt limit | 15.05% | 14.19% | 13.26% | 15.44% |

**Computation of Legal Debt Margin
June 30, 2006**

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <u>\$ 2,022,903,435</u> | <u>\$ 1,849,182,518</u> | <u>\$ 1,727,874,758</u> | <u>\$ 1,509,207,856</u> | <u>\$ 1,397,580,504</u> | <u>\$ 1,324,682,830</u> |
| <u>202,290,344</u> | <u>184,918,252</u> | <u>172,787,476</u> | <u>150,920,786</u> | <u>139,758,050</u> | <u>132,468,283</u> |
| 51,823,113 | 25,943,958 | 20,134,310 | 21,728,244 | 23,323,993 | 20,013,242 |
| - | - | - | - | 230,000 | 460,000 |
| 7,755,000 | 8,515,000 | 9,205,000 | 9,830,000 | 10,395,000 | 9,375,000 |
| 6,415,000 | 5,620,000 | 6,175,000 | 6,705,000 | 7,100,000 | 7,570,000 |
| <u>2,980,000</u> | <u>3,140,000</u> | <u>3,280,000</u> | <u>3,400,000</u> | <u>3,500,000</u> | <u>-</u> |
| 34,673,113 | 8,668,958 | 1,474,310 | 1,793,244 | 2,098,993 | 2,608,242 |
| 455,000 | 595,000 | 725,000 | 850,000 | 970,000 | 1,085,000 |
| 34,218,113 | 8,073,958 | 749,310 | 943,244 | 1,128,993 | 1,523,242 |
| <u>\$ 168,072,231</u> | <u>\$ 176,844,294</u> | <u>\$ 172,038,166</u> | <u>\$ 149,977,542</u> | <u>\$ 138,629,057</u> | <u>\$ 130,945,041</u> |
| 16.92% | 4.37% | 0.43% | 0.62% | 0.81% | 1.15% |

City of St. Clair Shores, Michigan

Debt Statement June 30, 2006

| | | | | Net Debt (1) | |
|---|-----------------------|-----------------------------------|-----------------------|--------------------|---------------------------------|
| City Direct Debt | Gross | Self-supporting | Net | Per Capita | Percentage of Taxable Valuation |
| Water and Sewer Revenue Bonds LTGO | \$ 1,920,000 | \$ 1,920,000 | \$ - | | |
| MTF Bonds LTGO | 3,315,000 | 3,315,000 | - | | |
| Revenue Refunding Bonds LTGO | 3,195,000 | 3,195,000 | - | | |
| Building Authority Revenue Bonds LTGO | 745,000 | 745,000 | - | | |
| Share of County-issued bonds | 47,495,818 | - | 47,495,818 | | |
| Tifa Revenue Bonds | 2,120,000 | 2,120,000 | - | | |
| Total direct debt | \$ 58,790,818 | \$ 11,295,000 | \$ 47,495,818 | \$ 781.71 | 2.59 |
| | | | | Net Debt (1) | |
| City Overlapping Debt (2) | Gross | City Share as Percentage of Gross | Net City Share | Per Capita | Percentage of Taxable Valuation |
| South Lake School District | \$ 20,805,000 | 85.76 | \$ 17,842,368 | | |
| Lakeview School District | 30,785,000 | 100.00 | 30,785,000 | | |
| Lake Shore School District | 26,720,000 | 100.00 | 26,720,000 | | |
| L'Anse Creuse School District | 144,535,000 | 0.08 | 115,628 | | |
| Macomb I/S/D | 2,500,000 | 6.29 | 157,250 | | |
| Macomb - County at large | 72,659,479 | 6.42 | 4,664,739 | | |
| Total overlapping debt | 298,004,479 | | 80,284,985 | \$ 1,321.37 | 4.37 |
| Total City direct and overlapping debt | \$ 356,795,297 | | \$ 127,780,803 | \$ 2,103.08 | 6.96 |

(1) Based on the Southeastern Michigan Council of Governments 2006 estimated population of 61,027 and 2005 ad valorem taxable valuation of \$1,759,604,800

(2) Overlapping debt is the portion of other taxing units debt for which a City taxpayer is responsible in addition to debt of the City.

City of St. Clair Shores, Michigan

Revenue-sharing Payments from the State of Michigan General, Special Revenue, and Debt Service Funds Last Five Fiscal Years

| Years Ended June 30 | Revenue- sharing Payments |
|------------------------|---------------------------------|
| 2002 | \$ 10,861,402 |
| 2003 | 10,615,651 |
| 2004 | 10,870,076 |
| 2005 | 9,852,997 |
| 2006 | 9,852,997 |

City of St. Clair Shores, Michigan

General Fund Revenues from the State of Michigan Last Five Fiscal Years

| Years Ended June 30 | Revenue- sharing Payments |
|------------------------|---------------------------------|
| 2002 | \$ 7,085,852 |
| 2003 | 6,629,285 |
| 2004 | 6,104,053 |
| 2005 | 6,238,309 |
| 2006 | 6,291,763 |

City of St. Clair Shores, Michigan

Principal Employers Current and Nine Years Ago June 30, 2006

| Employer | 2006 | | 1997 | |
|------------------------------------|-----------|------|-----------|------|
| | Employees | Rank | Employees | Rank |
| Fisher Dynamics | 634 | 1 | 350 | 8 |
| Lake Shore Public Schools | 390 | 2 | 399 | 5 |
| South Lake Public Schools | 350 | 3 | 300 | 10 |
| City of St. Clair Shores | 274 | 4 | 302 | 9 |
| Lakeview Public Schools | 265 | 5 | 378 | 7 |
| Stahl's, Inc. | 264 | 6 | 420 | 3 |
| St. John Health System | 214 | 7 | - | |
| NGS American | 110 | 8 | - | |
| Roy O'Brian Ford | 105 | 9 | - | |
| First State Bank | 101 | 10 | - | |
| Allied Signal, Inc | - | | 540 | 1 |
| American Model and Pattern Company | - | | 499 | 2 |
| Plastec | - | | 400 | 4 |
| Kroger | - | | 387 | 6 |

Source: City of St. Clair Shores

City of St. Clair Shores, Michigan

Principal Taxpayers Current and Nine Years Ago Year Ended June 30, 2006

| Taxpayer | June 30, 2006 | | | June 30, 1997 | | |
|------------------------|--------------------------|------|---------------------------|--------------------------|------|---------------------------|
| | 2005 Taxable Value | Rank | Percentage of Total | 1996 Taxable Value | Rank | Percentage of Total |
| DETROIT EDISON | \$ 16,901,100 | 1 | 0.92% | \$ 9,570,442 | 1 | 0.73% |
| 400 MONROE ASSOCIATES | 11,068,900 | 2 | 0.60% | 7,395,658 | 2 | 0.57% |
| FISHER DYNAMICS | 9,243,600 | 3 | 0.50% | 3,496,602 | 5 | 0.27% |
| CONSUMERS ENERGY | 7,348,200 | 4 | 0.40% | 6,089,018 | 3 | 0.47% |
| ST. JOHN HEALTH SYSTEM | 5,310,000 | 5 | 0.29% | 4,341,018 | 4 | 0.33% |
| JEFFERSON BEACH MARINA | 4,972,800 | 6 | 0.27% | 2,553,939 | 7 | 0.20% |
| NORTH SHORE ASSOCIATES | 3,672,700 | 7 | 0.20% | 3,174,432 | 6 | 0.24% |
| MICHIGAN HARBOR MARINA | 3,406,500 | 8 | 0.19% | 1,893,301 | 8 | 0.14% |
| KMART CORPORATION | 3,371,700 | 9 | 0.18% | 1,854,611 | 9 | 0.14% |
| WALGREENS | 3,138,700 | 10 | 0.17% | - | - | 0.00% |
| SSC ASSOCIATES | - | - | - | 1,830,327 | 10 | 0.14% |
| TOTAL | \$ 68,434,200 | | 3.72% | \$ 42,199,348 | | 3.23% |

City of St. Clair Shores, Michigan

Water Sold vs. Water Purchased

| Fiscal Year Ended June 30 | Purchased (I) | Sold (I) |
|------------------------------|---------------|----------|
| 1997 | 303,249 | 279,359 |
| 1998 | 310,013 | 242,349 |
| 1999 | 310,103 | 285,919 |
| 2000 | 299,221 | 274,654 |
| 2001 | 282,408 | 256,197 |
| 2002 | 287,550 | 260,474 |
| 2003 | 329,918 | 262,300 |
| 2004 | 301,467 | 266,265 |
| 2005 | 334,315 | 239,213 |
| 2006 | 307,220 | 261,208 |

(I) Unit = 1,000 metered cubic feet (MCF)

City of St. Clair Shores, Michigan

Water Customers and Consumption

| Type of User | Fiscal Year Ended June 30 | | | | |
|---|---------------------------|----------------|----------------|----------------|----------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Number of Water Customers | | | | | |
| Residential | 23,958 | 23,952 | 23,937 | 23,915 | 23,890 |
| Commercial | 1,272 | 1,277 | 1,271 | 1,281 | 1,279 |
| Total | <u>25,230</u> | <u>25,229</u> | <u>25,208</u> | <u>25,196</u> | <u>25,169</u> |
| Water Consumption by Number of Units (1) | | | | | |
| Residential | 248,148 | 227,252 | 252,952 | 249,184 | 247,450 |
| Commercial | 13,060 | 11,961 | 13,313 | 13,116 | 13,024 |
| Total | <u>261,208</u> | <u>239,213</u> | <u>266,265</u> | <u>262,300</u> | <u>260,474</u> |
| Percent of Water Consumption by Category | | | | | |
| Residential | 95% | 95% | 95% | 95% | 95% |
| Commercial | 5% | 5% | 5% | 5% | 5% |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

(1) Unit = 1,000 metered cubic feet

City of St. Clair Shores, Michigan

| Fiscal Years Ended June 30 | Water | | Sanitary Sewer | |
|-------------------------------|---------|-------------------|----------------|-------------------|
| | Per MCF | Percent Change | Per MCF | Percent Change |
| 1997 | 16.24 | 9.21 | 18.45 | 3.02 |
| 1998 | 16.91 | 4.13 | 19.11 | 3.58 |
| 1999 | 18.01 | 6.51 | 20.35 | 6.49 |
| 2000 | 16.82 | (6.61) | 19.16 | (5.85) |
| 2001 | 13.92 | (17.24) | 20.71 | 8.09 |
| 2002 | 15.20 | 9.20 | 21.35 | 3.09 |
| 2003 | 17.30 | 13.82 | 23.16 | 8.48 |
| 2004 | 19.07 | 10.23 | 26.12 | 12.78 |
| 2005 | 18.95 | (0.63) | 26.53 | 1.57 |
| 2006 | 17.60 | (7.12) | 26.53 | - |

(1) Based on a non-lakefront residential lot

(2) Based on average consumption of 2.5 thousand cubic feet

History of Utility Rates

| Storm Sewer | | | Average Quarterly Bill | | | |
|-----------------------|-------------------|-------------------------------|---|---------------|-------------------|--|
| Per Quarter (1) | Percent Change | Billing Charge Per Quarter | Operation and Maintenance Charge Per Quarter | Amount (2) | Percent Change | |
| 5.02 | 0.40 | \$ 3.00 | \$ 0.49 | \$ 95.24 | 5.31 | |
| 5.02 | - | 3.00 | 0.49 | 98.56 | 3.49 | |
| 6.00 | 19.52 | 3.00 | 0.49 | 105.39 | 6.93 | |
| 6.00 | - | 3.00 | 0.49 | 99.44 | (5.65) | |
| 6.00 | - | 3.00 | 0.49 | 96.07 | (3.39) | |
| 6.00 | - | 3.00 | 0.49 | 100.87 | 5.00 | |
| 6.00 | - | 3.00 | 0.49 | 110.64 | 9.69 | |
| 6.00 | - | 3.00 | 0.49 | 122.47 | 10.69 | |
| 6.00 | - | 3.00 | 0.49 | 123.19 | 0.59 | |
| 10.59 | 76.50 | 3.00 | 0.49 | 124.41 | 0.99 | |

City of St. Clair Shores, Michigan

Sewer Rates - Commercial and Industrial Users (1)

| Meter Size | Fiscal Year Ended June 30 | | | | |
|------------|---------------------------|----------|----------|----------|----------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| 5/8" | \$ 14.22 | \$ 13.50 | \$ 17.88 | \$ 15.03 | \$ 11.97 |
| 3/4" | 21.36 | 20.22 | 26.85 | 22.53 | 17.97 |
| 1" | 35.58 | 33.72 | 44.73 | 37.56 | 29.91 |
| 1-1/2" | 78.27 | 74.16 | 98.40 | 82.62 | 65.82 |
| 2" | 113.85 | 107.88 | 143.10 | 120.18 | 95.70 |
| 3" | 206.34 | 195.54 | 259.38 | 217.86 | 173.46 |
| 4" | 284.61 | 269.70 | 357.75 | 300.48 | 239.25 |
| 6" | 426.90 | 404.58 | 536.64 | 450.72 | 358.89 |

- (1) Commercial and industrial users pay this additional charge quarterly based on the size of their water meter

City of St. Clair Shores, Michigan

History of Residential Water and Sewer Rate Increases

| | Average Quarterly Bill (1) | Percent Change |
|--------------------|----------------------------------|-------------------|
| Effective 07/01/99 | \$ 99.44 | \$ (5.65) |
| Effective 07/01/00 | 96.07 | (3.39) |
| Effective 07/01/01 | 100.87 | 5.00 |
| Effective 07/01/02 | 110.64 | 9.69 |
| Effective 07/01/03 | 123.81 | 11.90 |
| Effective 07/01/04 | 123.91 | 0.08 |
| Effective 07/01/05 | 124.39 | 0.39 |
| Effective 07/01/06 | 129.61 | 4.20 |

(1) Average monthly bill assumes approximately 2,500 metered cubic feet usage and 5/8" water meter.

City of St. Clair Shores, Michigan

Ten Largest Water and Sewer Customers Fiscal Year Ended June 30, 2006

| Customer | Usage (1) | Percent of Total (2) | Revenue | Percent of Total (3) |
|-------------------------|---------------|-------------------------|-------------------|-------------------------|
| Lakeshore Village | 3,855 | 1.48 | \$ 192,495 | 1.34 |
| Williamsburg | 1,897 | 0.73 | 90,203 | 0.63 |
| Shore Club | 1,829 | 0.70 | 85,228 | 0.59 |
| Northshore | 1,530 | 0.59 | 73,603 | 0.51 |
| Bon Secour | 1,478 | 0.57 | 75,771 | 0.53 |
| Woodbridge East | 1,445 | 0.55 | 72,779 | 0.51 |
| Leisure Manor | 1,292 | 0.49 | 64,042 | 0.45 |
| Butcher Boy | 1,110 | 0.42 | 51,007 | 0.35 |
| St. John's Health Corp. | 1,022 | 0.39 | 52,487 | 0.37 |
| Riviera Terrace | 952 | 0.36 | 47,889 | 0.33 |
| Total | <u>16,410</u> | <u>6.28</u> | <u>\$ 805,504</u> | <u>5.61</u> |

(1) Unit = 1,000 metered cubic feet

(2) Based on the June 30, 2005 total water sales of 261,208 units

(3) Based on the June 30, 2005 operating revenue of \$14,374,431

City of St. Clair Shores, Michigan

Historical Net Earnings, Cash Flow, and Debt Service Coverage - Utility Fund Last Five Years

| | Fiscal Year Ended June 30 | | | | |
|----------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Operating revenues | \$ 14,374,437 | \$ 12,848,164 | \$ 13,604,184 | \$ 12,726,697 | \$ 11,385,239 |
| Operating expenses | <u>13,559,598</u> | <u>14,505,646</u> | <u>13,610,242</u> | <u>13,476,849</u> | <u>11,806,257</u> |
| Operating income (loss) | 814,839 | (1,657,482) | (6,058) | (750,152) | (421,018) |
| Other revenues | 2,041,597 | 1,868,800 | 1,654,935 | 1,636,757 | 1,583,488 |
| Other expenses | <u>(123,491)</u> | <u>(154,511)</u> | <u>(120,599)</u> | <u>(141,657)</u> | <u>(163,680)</u> |
| Net income | 2,732,945 | 56,807 | 1,528,278 | 744,948 | 998,790 |
| Plus: | | | | | |
| Depreciation | 1,014,816 | 753,617 | 763,907 | 785,748 | 764,382 |
| Interest expense | <u>65,491</u> | <u>80,091</u> | <u>120,599</u> | <u>141,657</u> | <u>163,680</u> |
| Cash available for debt service | <u>\$ 3,813,252</u> | <u>\$ 890,515</u> | <u>\$ 2,412,784</u> | <u>\$ 1,672,353</u> | <u>\$ 1,926,852</u> |
| Debt service (1) | \$ 197,023 | \$ 191,282 | \$ 212,610 | \$ 459,315 | \$ 454,530 |
| Historical debt service coverage | 19.35x | 4.70 x | 11.35 x | 3.64 x | 4.24 x |

(1) Includes principal and interest payments on all current and prior revenue bonds

City of St. Clair Shores, Michigan

Schedule of Bond Maturities

| Year | Authority Bonds | Municipal Purchase Agreements | Revenue Bonds | Drain | MTF Bonds |
|-------|---------------------|-------------------------------------|---------------------|----------------------|---------------------|
| 2007 | \$ 395,000 | \$ 161,403 | \$ 425,000 | \$ 1,694,018 | \$ 355,000 |
| 2008 | 430,000 | 132,571 | 435,000 | 1,739,267 | 380,000 |
| 2009 | 455,000 | 92,375 | 440,000 | 1,788,573 | 395,000 |
| 2010 | 500,000 | 50,000 | 460,000 | 1,839,892 | 410,000 |
| 2011 | 530,000 | - | 475,000 | 1,902,009 | 425,000 |
| 2012 | 555,000 | - | 495,000 | 1,956,315 | 435,000 |
| 2013 | - | - | 510,000 | 2,026,313 | 450,000 |
| 2014 | - | - | 530,000 | 2,076,938 | 465,000 |
| 2015 | - | - | 555,000 | 2,144,546 | - |
| 2016 | - | - | 575,000 | 2,221,797 | - |
| 2017 | - | - | 215,000 | 2,285,645 | - |
| 2018 | - | - | - | 2,368,294 | - |
| 2019 | - | - | - | 2,449,887 | - |
| 2020 | - | - | - | 2,533,682 | - |
| 2021 | - | - | - | 2,619,162 | - |
| 2022 | - | - | - | 2,713,451 | - |
| 2023 | - | - | - | 2,814,154 | - |
| 2024 | - | - | - | 1,279,265 | - |
| 2025 | - | - | - | 1,319,254 | - |
| 2026 | - | - | - | 1,386,692 | - |
| 2027 | - | - | - | 1,462,359 | - |
| 2028 | - | - | - | 1,542,239 | - |
| 2029 | - | - | - | 1,624,481 | - |
| 2030 | - | - | - | 1,707,589 | - |
| Total | \$ 2,865,000 | \$ 436,349 | \$ 5,115,000 | \$ 47,495,822 | \$ 3,315,000 |

Debt History: There is no record of default.

Future Bonding: The City anticipates the issuance of General Obligation Debt in the amount of \$3,750,000 during August 2006.

Note: The difference between this schedule and the LTD footnote relates to unamortized deferred refunding cost and issue cost for the Water and Sewer 2004 Refunding Bonds and Recreation Revenue 2003 Refunding Bonds, totaling \$100,088 and \$328,382, respectively, as of June 30, 2006.

City of St. Clair Shores, Michigan

General Fund - Fund Balance Last Five Fiscal Years

| <u>Fiscal Year Ended June 30</u> | <u>Fund Balance</u> |
|--------------------------------------|-------------------------|
| 2006 | \$ 17,645,820 |
| 2005 | 12,346,111 |
| 2004 | 11,551,615 |
| 2003 | 10,560,799 |
| 2002 | 10,276,087 |
| 2001 | 10,435,959 |

City of St. Clair Shores, Michigan

**Federal Awards
Supplemental Information
June 30, 2006**

City of St. Clair Shores, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

We have audited the basic financial statements of the City of St. Clair Shores, Michigan for the year ended June 30, 2006 and have issued our report thereon dated September 25, 2006. Those basic financial statements are the responsibility of the management of the City of St. Clair Shores, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of St. Clair Shores, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 25, 2006



A worldwide association of independent accounting firms

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

We have audited the financial statements of the City of St. Clair Shores, Michigan as of and for the year ended June 30, 2006 and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of St. Clair Shores, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of St. Clair Shores, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moreau, PLLC

September 25, 2006

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

Compliance

We have audited the compliance of the City of St. Clair Shores, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of the City of St. Clair Shores, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of St. Clair Shores, Michigan's management. Our responsibility is to express an opinion on the City of St. Clair Shores, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of St. Clair Shores, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of St. Clair Shores, Michigan's compliance with those requirements.

In our opinion, the City of St. Clair Shores, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

Internal Control Over Compliance

The management of the City of St. Clair Shores, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of St. Clair Shores, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 25, 2006

City of St. Clair Shores, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

| Federal Agency/Pass-through Agency/Program Title | CFDA Number | Pass-through Entity Project/Grant Number | Award Amount | Federal Expenditures |
|---|----------------|--|--|---|
| U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant: | 14.218 | N/A | | |
| Program year 2003-B02-MC-26-0013 | | | 1,139,000 | \$ 39 |
| Program year 2004-B03-MC-26-0013 | | | 1,122,000 | 268,641 |
| Program year 2005-B04-MC-26-0013 | | | 1,116,000 | 582,995 |
| Program year 2006-B05-MC-26-0013 | | | 1,064,637 | <u>266,403</u> |
| Total Community Development Block Grant | | | | 1,118,078 |
| U. S. Department of Transportation - Passed through State of Michigan Department of Transportation - Federal Highway Administration | 20.205 | STP9950012 STP0150010 NH0250-025 STP0250030 STP0450025 STP0450026 STP0450035 IMD0150-034 BHI0250-027 BRO0650-015 NH0550026 | 499 3,102 37,733 2,180 7,428 6,092 82,764 15,654 1,041 379 1,377,337 | 499 3,102 37,733 2,180 7,428 6,092 82,764 15,654 1,041 379 <u>1,377,337</u> |
| Total U.S. Department of Transportation | | | | 1,534,209 |
| U.S. Department of Homeland Security: Passed through the Michigan Department of State Police: | | | | |
| Homeland Security Training Grant | 97.004 | N/A | 4,741 | 6,989 |
| Homeland Security Grant (2004) | 97.067 | N/A | 153,063 | 69,639 |
| Homeland Security Grant (2005) | 97.067 | N/A | 144,674 | 65 |
| Direct Program - Homeland Security Assistance to Firefighters FEMA | 97.044 | N/A | 90,468 | <u>90,468</u> |
| Total U.S. Department of Homeland Security | | | | 167,161 |
| U.S. Department of Justice - Direct Programs: | | | | |
| Bullet Proof Vest Partnership Program (2004) | 16.607 | N/A | 9,408 | 5,352 |
| Justice Assistance Grant (2005) | 16.738 | N/A | 20,094 | 20,094 |
| Justice Assistance Grant (2006) | 16.738 | N/A | 12,019 | 12,019 |
| COPS Interoperable Communications Technology | 16.710 | N/A | 61,568 | <u>61,568</u> |
| Total U.S. Department of Justice | | | | 99,033 |
| Election Assistance Commission - Direct Program - Help America Vote Act Requirements Payments | 90.401 | N/A | 155,466 | <u>155,466</u> |
| Total federal awards | | | | <u><u>\$ 3,073,947</u></u> |

City of St. Clair Shores, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

| | |
|---|----------------------------|
| Revenue from federal sources - As reported on financial statements (includes all funds) | \$ 4,801,939 |
| Add federal revenue reported as state revenue | 34,040 |
| Deferred revenue not reported for the year ended June 30, 2006 | 3,425 |
| Michigan Department of Transportation administered grant revenue not reported in basic financial statements | 1,534,209 |
| Less federal funding for Lake St. Clair Clean Water Initiative administered by Macomb County Public Works Commissioner | <u>(3,299,666)</u> |
| Federal expenditures per the schedule of expenditures of federal awards | <u>\$ 3,073,947</u> |

City of St. Clair Shores, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of St. Clair Shores, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

| Federal Program | CFDA Number | Amount Provided to Subrecipients |
|-----------------------------------|----------------|--|
| Community Development Block Grant | 14.218 | \$ 20,099 |

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

| CFDA Number(s) | Name of Federal Program or Cluster |
|----------------|------------------------------------|
| 14.218 | Community Development Block Grant |
| 20.205 | Federal Highway Administration |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

September 25, 2006

The Honorable Mayor and Members
of the City Council
City of St. Clair Shores
27600 Jefferson Avenue
St. Clair Shores, MI 48081

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of St. Clair Shores for the year ended June 30, 2006. In addition to our audit report, we offer the following comments and recommendations for your consideration:

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended June 30, 2006, General Fund revenues exceeded expenditures by approximately \$5,300,000 taking into account transfers to other funds. Fund balance at June 30, 2006 amounted to approximately \$17,646,000. Of this amount, \$5,966,000 is reserved for Post-employment Benefits, Sanitation and Street Improvement, \$9,179,000 is designated for current year carry-over expenditures and budget shortfalls and \$2,501,000 is undesignated. The undesignated portion represents approximately 5.5 percent of budgeted 2006-2007 expenditures, which is within the range typically expected by rating agencies.

During the 2005-2006 fiscal year, the City experienced another reduction in State revenue sharing sources (as discussed below). However, growth in property tax revenue, including the new police and fire operating millage, and the continued ability of City departments to remain at or below budgeted expenditures has resulted in fund balance at June 30, 2006, in comparison with the 2005-2006 budget, being higher than anticipated. We compliment the City Council and administration for their success in planning and monitoring the budget.

The City continues to be faced with many budgetary challenges, including:

- Expenditure growth in excess of revenue growth
- Reductions in State revenue sharing
- Limitations in property tax growth
- Future infrastructure and capital equipment needs
- Currently unfunded post-employment benefit obligations

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Many of the challenges are a direct result of the difficult economic period that has been experienced in the State of Michigan. Others are characteristics of the City and its physical framework. The City has historically used the five-year financial forecasting model and a long-term capital plan to better predict the effects of revenue changes and what impact those changes have on the City's ability to provide services to citizens. It is important that the City maintains an adequate level of working capital and fund balance to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations.

As you are aware, the City is not alone in its budgetary struggles. The Task Force on Local Government Services and Fiscal Stability commissioned by the Governor to further study Michigan's Municipal Finance Model has recently issued its report, the findings of which reinforce the issues currently faced by the City. A copy of the report can be accessed at www.migfoa.org.

STATE SHARED REVENUE

The budget for the State of Michigan's 2006-2007 fiscal year provides for revenue sharing equivalent to the fiscal year 2005-2006 funding level. As such, no further reductions to revenue sharing below the current funding level have been proposed. While it is good news that revenue sharing will be maintained at current levels, there are three significant factors that indicate that continued caution should be exercised when preparing and monitoring the City's budget.

- **Structural Deficits in State General Fund** - Current sales tax revenue would support an increase to total state shared revenue payments for fiscal year 2006-2007 of over \$600 million based on the formulas provided for in law and actual sales tax collections. This fact highlights the structural deficits in the State's General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.
- **Elimination of the Single Business Tax** - As you are aware, the State's Single Business Tax has been eliminated for tax years beginning after December 31, 2007. Currently, the State does not have a plan to replace the \$1.9 billion of tax revenue generated by the Single Business Tax, which will place additional pressures on the State's General Fund budget. Further, the deliberations surrounding the replacement of the Single Business Tax have also included the proposed modifications to or elimination of personal property taxes, which is a significant revenue source to the City.
- **The State eliminated \$182 million of statutory revenue sharing payments to counties in fiscal year 2003-2004 in conjunction with a change in the timing of county operating levies.** It is expected that counties will once again be eligible for statutory revenue sharing payments in the near future and that any increase in payments to counties to come at the expense of cities, villages and townships.

As you are aware, State shared revenue accounts for approximately 13 percent of the City's total General Fund budget and is comprised of a constitutional and statutory portion. The table below details state shared revenue for the City over the past six years and projected funding levels for 2007. The final column presents the total decrease in state shared revenue experienced by the City since the 1999-2000 fiscal year:

| Fiscal Year | Statutory | Constitutional | Total | Decrease from 2000 |
|-------------|-------------|----------------|-------------|--------------------|
| 2000 | \$2,721,414 | \$4,616,783 | \$7,338,197 | \$ - |
| 2001 | 3,057,868 | 4,094,438 | 7,152,306 | 185,891 |
| 2002 | 2,710,280 | 4,136,144 | 6,846,424 | 491,773 |
| 2003 | 2,380,915 | 4,206,169 | 6,587,084 | 751,113 |
| 2004 | 1,759,680 | 4,160,480 | 5,920,160 | 1,418,037 |
| 2005 | 1,595,862 | 4,259,768 | 5,855,630 | 1,482,567 |
| 2006 | 1,458,185 | 4,332,291 | 5,790,476 | 1,547,721 |
| 2007 | 1,338,319 | 4,452,157 | 5,790,476 | 1,547,721 |

If the State were to consider additional cuts to revenue sharing, the City is potentially at risk for the amount of statutory revenue sharing (the constitutional portion cannot be modified without a change to the State's constitution). We will continue to update the City as developments occur with revenue sharing and the State's budget. In addition, updated information can be obtained from the State's website or by calling the Office of Revenue and Tax Analysis at 517.373.2697.

TRANSPORTATION FUNDING CHANGES

Current legislation modified Act 51 to allow local governments to transfer monies from the Major Street Fund to the Local Street Fund at a level of 50 percent of annual Major Street funding received. Transfers greater than 50 percent can also be authorized; however, the amended law requires that certain conditions be met, including the adoption of an asset management program for the Major and Local Street systems as well as a detailed resolution passed by the City Council. It is important to note that Major Street monies transferred for use on Local Streets cannot be used for construction but may be used for preservation. In addition, it is important to note that these provisions sunset on December 31, 2008. Without an extension of these provisions, a transfer from the Major Street Fund to the Local Street Fund can only be done to

the extent that local revenues exist in the Major Street Fund. The current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

CABLE FRANCHISE FEES

The State of Michigan has joined a number of other states considering statewide cable television franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable television providers, and also would apply to new providers who would provide service through phone lines. Details are still being worked out in regard to "public access" and local origination channels, franchise fees due to local governments, service boundaries and other key provisions. Responding to pressure from local government, the Legislature has decided to wait until after the November elections to continue discussions regarding this bill.

UTILITY COMPANY PERSONAL PROPERTY TAX APPEALS

As you are likely aware, the City recently reached a settlement agreement with DTE Energy regarding use of the revised multiplier tables for the transmission and distribution properties of utility companies. The settlement covers disputed assessments from the 1998 through 2005 tax years and provides that both the company and the City drop all prior claims regarding the over- or under-payment of taxes. As we have previously communicated to you, the City had taken a conservative position regarding the need for a provision due to the uncertainty regarding potential refunds and, as such, the final resolution of the issue did not have a significant effect on the City's financial results for 2006.

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

As you are aware, the City provides post-employment benefits to retirees that are funded currently from the General Fund and the Police and Fire Pension millage. For the year ended June 30, 2006, the cost of these benefits amounted to approximately \$3,624,000 representing an increase of approximately 6 percent over the 2005 amount. The City has experienced post-employment health care cost increases of 6 to 15 percent over the past several years and this annual cost is expected to grow as the average age of the City's workforce and the number of former employees eligible for post-employment benefits increases.

The City has established the Police and Fire Retiree Health Care Fund to begin to set aside resources to fund these obligations. This fund was established in accordance with The Public Employee Health Act of 1999 (P.A. 149 of 1999) which allows communities to invest assets set aside for post-employment benefit obligations in the same investment vehicles as pension funds (e.g., stocks, bonds, etc.). These investments provide a better means of achieving rates of return necessary to fund these long-term liabilities. As a reminder, for funds established in accordance with P.A. 149 of 1999, withdrawals from the fund are restricted solely for the payment of health care benefits and administrative expenses and an actuarial study is required every five years if the fund is not established on an actuarial basis.

The Honorable Mayor and Members
of the City Council
City of St. Clair Shores

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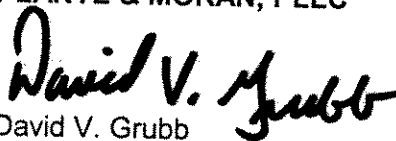
September 25, 2006

Current accounting pronouncements do not require the accounting for post-employment benefit obligations on an actuarial basis. Recent accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), however, will change the accounting for post-employment benefit obligations to a methodology similar to that used for pension benefits. GASB Statements No. 43 and 45 will require that post-employment benefit liabilities and expenses be measured on an actuarial basis. The new accounting standards will require disclosure of liabilities on an actuarial basis in the City's June 30, 2008 financial report and the measurement of liabilities and expenses on an actuarial basis with the fiscal year beginning July 1, 2008. It is our understanding that the City has begun the process of compiling the information necessary to perform an actuarial valuation. While we understand the effect the new accounting standards will have on the City's annual budget and financial statements, we believe that it will provide for the first time appropriate recognition of a significant long-term obligation that has not been fully-funded to date.

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss these or any other matters, please contact us at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC


David V. Grubb


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